中兴通讯股份有限公司
ZTE CORPORATION

Annual Report 2011

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, accuracy and completeness of the financial reports contained in this annual report.

This annual report has been considered and approved at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons and authorised Mr. Wang Zhanchen, Director, 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 2011 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
"Directors"	Members of the board of directors of the Company
"Supervisory Committee"	the supervisory committee 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
"Shenzhen CSRC"	The CSRC Shenzhen Bureau
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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
"Aerospace Guangyu"	Shenzhen Aerospace Guangyu Industrial (Group) 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
"Congo-Chine"	Congo-Chine Telecom S.A.R.L.
"ZTE France"	ZTE France SASU
"BOCHK"	Bank of China (Hong Kong) Limited
"Nationz Technologies"	Nationz Technologies, Inc.

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.

2G	Second-generation mobile networks utilizing digital wireless technology to provide larger network capacity, improved voice quality and encryption and seamless international roaming for users. Existing mobile communications networks are mainly 2G GSM and CDMA utilizing IS-95B technology for GSM, GPRS and CDMA with a data supply capacity of up to 115.2 Kbps, or 384 Kbps in case of GSM featuring EDGE technology.
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, 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.
4G	IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, supporting theoretical download rates of 1Gbit/s in fixed locations and 100Mbit/s in motion.
GSM	A global system for cellular mobile communications originated in Europe, which has been deployed in more than 170 countries using TDMA radio propagation scheme.
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.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission.
CDMA2000	The CDMA2000 standards are set by 3GPP2, featuring various versions such as Release 0, Release A and EV-DO. Currently, data services supported by single carrier wave EV-DO are capable of simultaneously providing voice and high-speed packet data services utilizing 1.25MHz standard carrier wave, with a peak rate of 3.1Mbit/s.
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).
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.
EPON	Ethernet passive optical network, an optical access network technology that utilizes the “point-to-multipoint” passive optical technology at the physical layer and the Ethernet protocol at the link layer to benefit from the strengths of both PON technology and Ethernet technology.

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. It can be distinguished into frequency division duplex (FDD-LTE) and time division duplex (TDD-LTE) according to the mode of division duplex.
C-RAN	A low-cost and high-performance green radio access network architecture, which is a cooperative wireless network comprising a centralized baseband pool, a remote radio frequency unit and an antenna group. C-RAN is conducive to lower construction and operating costs for mobile networks, energy conservation and higher utilization of infrastructure, while enabling better frequency spectrum efficiency and broader bandwidth for 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.
UPP Platform	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.
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	Advanced Telecom Computing Architecture, an advanced telecom computing structure announced by PICMG (an international manufacturer of PCI industrial computers) in 2002 to provide a standardised platform system architecture for telecom-grade applications. It is being extensively used in the telecommunications industry.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
IPTV	Interactive TV services utilizing wireline broadband network and carried by IP protocol.
Wireless City	Wireless network access using multiple wireless access technologies to provide wireless network access on an as-demanded basis. The Wireless City is a multi-layered, all-compassing information network that features broadband connection, extensive presence and fusion. It integrates the information application platforms of the Internet, Mobile Internet and Internet of Things and amasses a large volume information and applications, such as public services, retail discounts, tourist information, wireless government services, news and handheld entertainment.

Glossary

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.
ID Net	A new network architecture that essentially assigns a fixed ID to each terminal so that such terminal could maintain service continuity while in motion. It is an attempt to resolve issues in IP network technologies arising in the context of the Mobile Internet.
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 realize 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.
Wireless Multiple Network Fusion	The fusion of wireless technologies with different standards and protocols to achieve maximum network operating efficiency and consistency in end-users' experience. This includes the fusion of 2G, 3G, LTE and WLAN at the system equipment level and the terminal level.
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.
Mobile Internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad. Enriched by the popularization of smart terminals, Mobile Internet services now include mobile computing, mobile music, smart phone games, positioning technology, wireless communities and wireless payments, etc.
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.
Access Network	In the public telecommunications network, the access network operates between the local exchange and the users and is mainly responsible for connecting the users to the core network. It is formed by a line of equipment between the service node interface (SNI) and the user network interface (UNI).
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.

Company Profile

The Company is a leading integrated communications manufacturer in the world market and a provider of global telecommunications solutions, with 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)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2.	Legal representative	Hou Weigui
3.	Secretary to the Board of Directors/ Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong Cao Wei
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	fengjianxiong@zte.com.cn
4.	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	fengjianxiong@zte.com.cn
	Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
5.	Authorised representatives	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

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	Paul Hastings 21–22/F, Bank of China Tower, 1 Garden Road, 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 Signing Accountants: Huang Yuedong, Li Yuxing
	Hong Kong	Ernst & Young 22nd Floor, No. 1 Tim Mei Avenue, Central, Hong Kong
11.	Other relevant information	
	Date of the latest change of registration	3 November 2011
	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 2011. On behalf of the Board of Directors, I would like to express sincere gratitude for your concern and support for ZTE.

The Group faced certain challenges in its business operations in 2011 and reported lower gross profit margin and net profit, as it felt the impact of the slowdown in global economic growth, adjustments to the monetary policy of the PRC government and its own strategy for expanding market shares. Nevertheless, the Group endeavoured to enhance its market position by leveraging its inherent strengths and taking advantage of changes in the competitive landscape, and succeeded in establishing all-rounded cooperation with mainstream global carriers. Meanwhile, the business operation and management of the Group continued to achieve steady development, which was mainly reflected in the following:

OPERATING RESULTS

The Group's operating revenue for 2011 amounted to RMB86.254 billion, representing a year-on-year growth of 23.39%, while net profit attributable to shareholders of the parent company decreased 36.62% to RMB2.060 billion. Basic earnings per share amounted to RMB0.61. The Group continued to enjoy moderately fast growth in various business segments in 2011. Operating revenue from the domestic market and the international amounted to RMB39.496 billion and RMB46.758 billion, respectively, representing respective growth of 22.67% and 24% over the previous year.

BUSINESS DEVELOPMENT

In 2011, investment of the global telecommunications industry in equipment varied from region to region. The focus of investment shifted to the construction and optimization of mobile broadband and wireline broadband networks, as 3G network deployment was reaching greater depths while the commercial deployment of 4G was also unfolding. As government-led broadband strategies continued to advance, there was stable growth in the capital expenditure of carriers.

Driven by policy support from the national "12th Five Year Plan" and vigorous deployment activities of carriers, the Group reported moderately rapid growth in its revenue from the domestic market. Internationally, competition was intense in the global telecommunications industry, with increasing conflicts in intellectual property rights. The Group endeavoured to enhance its market position by taking advantage of changes in the competitive landscape. While reinforcing our position in emerging markets, we continued to make breakthroughs with mainstream global carriers.

In 2011, the Group adjusted its product line to facilitate the provision of integrated solutions to carriers. A range of measures designed to improve efficiency and optimise processes have also been introduced, while skill enhancements for employees has remained a primary concern in line with our call for mutual progress for the Company and the staff.

CORPORATE GOVERNANCE

In 2011, 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 Company stipulated in the Articles of Association the types and amounts of derivative investments within the discretionary powers of the Board of Directors in accordance with requirements of the "Information Disclosure Memorandum No. 26 — Derivative Investments" issued by the Shenzhen Stock Exchange. The "ZTE 2011 Internal Control Development Plan and Implementation Scheme" was formulated in compliance with the "Notice on the Publication of Supplementary Guidelines for Corporate Internal Control" jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the "Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen" issued by the Shenzhen CSRC, and an internal control development project team was established to carry out internal control development work. Through the aforesaid activities, our corporate governance systems and regimes have been further enhanced.

CORPORATE SOCIAL RESPONSIBILITY

In 2011, the Company continued to persist in the fulfillment of its vision and strategies in corporate social responsibility, while maintaining stable growth in operating revenue. As an official signatory to the United Nations Global Compact and a member of GeSI and Green Touch, the Group has been working to incorporate the tenets of corporate social responsibility and sustainable development into its operations and corporate culture, seeking to develop more advanced and eco-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 customers, governments, international organizations and the media.

DIVIDEND DISTRIBUTION

In view of the Group's results of operation for 2011 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 2011 as follows: A cash dividend of RMB2 (before tax) for every 10 shares.

FUTURE PROSPECTS

For 2012, opportunities as well as challenges will abound. Meanwhile, the rapid development of the Mobile Internet will drive the large-scale construction of mobile broadband networks, together with ancillary projects for broadband conversion. The constant demand for improvements in network quality will drive the construction of new 2G/3G networks and the modernization and upgrade of existing ones. As the national broadband strategy continued to advance, the wireline market is set to embrace a new cycle of construction, while ICT sectors such as the Internet of Things, Cloud Computing and the Mobile Internet are on the verge of further transformation. Changes are also being seen in the demand of carriers, in relation to which the provision of integration solutions and the forging of long-term, stable partnerships will be crucial. The Group will go through a critical period of starting cooperation with mainstream global carriers, on the back of its globally competitive products and solutions.

IN 2012, THE GROUP WILL FOCUS ON THE FOLLOWING:

We will endeavour to strike a balance between development for the future and present conditions. With ongoing commitment to technological innovations for products, we will shift from the supply of products to the provision of integration solutions. We intend to further consolidate our market position by expanding to the government enterprise and service segments and increasing sales to mainstream carriers, as our strategy of focusing on populous nations and mainstream carriers reaches furthers depths. In the meantime, we will enhance execution of our turn to in-depth operation, taking actions to strengthen cash flow management, optimise process regimes and improve operating efficiency.

Hou Weigui
Chairman

Shenzhen, the PRC

29 March 2012

Major Events of the Group

2011

February	2011	ZTE ranked 2nd globally in terms applications for international patents
April	2011	ZTE selected by Telenor to deploy 5,000 HSPA+/LTE stations in Malaysia
June	2011	ZTE garnered two major awards from Frost & Sullivan 2011, namely "Best Optical Transmission Manufacturer" and "Best IPTV Manufacturer"
July	2011	ZTE completed the industry's first inter-operation of TDD LTE and 2G/3G networks
July	2011	ZTE Group Finance Co., Ltd. officially commenced business with the signing of a strategic cooperation agreement with 5 Chinese banks including China Development Bank
August	2011	Global debut of ZTE's TDD LTE multi-mode double standby smart phones at Shenzhen University Games
November	2011	ZTE named for the "2011 LTE Equipment Supplier Award" by Frost & Sullivan
November	2011	ZTE received the "PRC Patent Gold Award" from the State Intellectual Property Office of the People's Republic of China for its TDD technology
December	2011	Mobile carrier Hi3G and ZTE jointly announced the official commercial launch of the world's first TDD/FDD LTE dual mode network
December	2011	Mr. Shi Lirong, President, was among the winners of the "CCTV 2011 Outstanding Personalities in the PRC Economy"

Accounting and Business Data Highlights

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

Unit: RMB in millions

Item	Amount
Operating profit	429.5
Total profit	2,635.1
Net profit attributable to shareholders of the listed company	2,060.2
Net profit after extraordinary items attributable to shareholders of the listed company	1,067.2
Net cash flow from operating activities	(1,812.2)

Extraordinary items and amounts that have been deducted are as follows

Unit: RMB in millions

Extraordinary items	Amount
Non-operating income	362.9
Gains/losses from fair value change	(88.7)
Investment gains	982.2
Add: Others	74.8
Less: Gains/losses arising from the disposal of non-current assets	30.6
Less: Other non-operating expenses	132.4
Less: Effect of income tax	175.2
Total	**993.0**

(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 2011	For the year ended 31 December 2010 (Restated)	Year-on-year change (%)	For the year ended 31 December 2009
Total operating revenue	**86,254.5**	69,906.7	23.39%	60,272.6
Operating profit	**429.5**	2,589.6	(83.41%)	2,064.2
Total profit	**2,635.1**	4,360.2	(39.56%)	3,324.7
Net profit attributable to shareholders of the listed company	**2,060.2**	3,250.2	(36.61%)	2,458.1
Net profit after extraordinary items attributable to shareholders of the listed company	**1,067.2**	2,732.9	(60.95%)	2,338.5
Net cash flow from operating activities	**(1,812.2)**	941.9	(292.40%)	3,729.3

	As at 31 December 2011	As at 31 December 2010	Year-on-year change (%)	As at 31 December 2009
Total assets	**105,368.1**	84,152.4	25.21%	68,342.3
Total liabilities	**79,079.3**	59,190.4	33.60%	50,393.5
Owners' equity attributable to shareholders of the listed company	**24,231.7**	23,093.9	4.93%	16,825.3
Share capital (million shares) Note	**3,440.1**	2,866.7	20.00%	1,831.3

Note: The total share capital of the Company was increased from 2,866,731,684 shares to 3,440,078,020 shares as a result of the implementation of the 2010 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.

Accounting and Business Data Highlights

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 2011**	For the year ended 31 December 2010	Year-on-year change (%)	For the year ended 31 December 2009
Basic earnings per share (RMB/share) Note 1	**0.61**	0.98	(37.76%)	0.78
Diluted earnings per share (RMB/share) Note 2	**0.61**	0.96	(36.46%)	0.75
Basic earnings per share after extraordinary items (RMB/share) Note 1	**0.31**	0.82	(62.20%)	0.74
Weighted average return on net assets (%)	**8.74%**	15.32%	(6.58%)	15.83%
Weighted average return on net assets after extraordinary items (%)	**4.53%**	12.88%	(8.35%)	15.06%
Net cash flow from operating activities per share (RMB/share) Note 3	**(0.53)**	0.28	(289.29%)	1.18

Item	**As at 31 December 2011**	As at 31 December 2010	Year-on-year change (%)	As at 31 December 2009
Net asset per share attributable to shareholders of the listed company (RMB/share) Note 3	**7.06**	6.87	2.77%	5.31
Gearing ratio (%)	**75.05%**	70.34%	4.71%	73.74%

Note 1: 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 9,125,893 restricted shares remaining in lock-up. Basic earnings per share for 2010 and 2009 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans.

Note 2: As certain Subject Share quotas under the Share Incentive Scheme of the Company have given rise to 6,874,194, 61,864,408 and 69,737,523 potentially dilutive ordinary shares for the reporting period, 2010 and 2009, 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 2010 and 2009 have been restated to reflect the implementation of the 2010 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 2011 were calculated on the basis of the number of shares representing the total share capital at the end of the period after deduction of 9,125,893 restricted shares remaining in lock-up under the share incentive plan. The corresponding amounts for 2010 and 2009 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

3. Extraordinary items and amounts of the Group for the past three years prepared in accordance with PRC ASBEs

Unit: RMB in millions

Extraordinary items	**For the year ended 31 December 2011**	For the year ended 31 December 2010	For the year ended 31 December 2009
Non-operating income	**362.9**	259.3	271.5
Gains/(losses) from fair value change	**(88.7)**	83.6	—
Investment gains	**982.2**	447.0	—
Add: Others	**74.8**	50.3	—
Less: Gains/losses arising from the disposal of non-current assets	**30.6**	24.1	26.7
Less: Other non-operating expenses	**132.4**	207.4	104.1
Less: Effect of income tax	**175.2**	91.3	21.1
Total	**993.0**	517.4	119.6

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

Unit: RMB in millions

Results	Year ended 31 December				
	2011	2010 (Restated)	2009	2008	2007
Revenue	**86,254.5**	69,906.7	60,272.6	44,293.4	34,777.2
Cost of sales	**(62,086.4)**	(48,241.8)	(41,667.8)	(29,911.5)	(23,415.0)
Gross profit	**24,168.1**	21,664.9	18,604.8	14,381.9	11,362.2
Other income and revenue	**3,664.4**	2,639.8	1,723.5	1,295.7	1,028.0
Research and development expenses	**(8,492.6)**	(7,092.0)	(5,781.6)	(3,994.1)	(3,210.4)
Selling and distribution costs	**(11,112.2)**	(8,890.2)	(7,157.8)	(5,401.0)	(4,531.5)
Administrative expenses	**(2,605.6)**	(2,524.0)	(2,735.2)	(2,190.0)	(1,718.2)
Other expenses	**(1,684.1)**	(753.8)	(603.2)	(1,159.7)	(898.2)
Profit from operating activities	**3,938.0**	5,044.7	4,050.5	2,932.8	2,031.9
Finance costs	**(1,374.2)**	(728.6)	(751.7)	(690.2)	(328.3)
Share of profit and loss of jointly controlled entities and associates	**71.3**	44.1	26.0	19.9	24.1
Profit before tax	**2,635.1**	4,360.2	3,324.8	2,262.5	1,727.7
Tax	**(392.0)**	(883.7)	(629.1)	(350.6)	(276.2)
Profit before minority interests	**2,243.1**	3,476.5	2,695.7	1,911.9	1,451.5
Attributable to: Minority interests	**(182.9)**	(226.3)	(237.6)	(251.7)	(199.3)
Attributable to: Shareholders of parent company	**2,060.2**	3,250.2	2,458.1	1,660.2	1,252.2

Unit: RMB in millions

Assets and liabilities	As at 31 December				
	2011	2010	2009	2008	2007
Total assets	**107,784.1**	85,509.2	69,464.9	52,228.8	41,034.4
Total liabilities	**81,495.3**	60,547.2	51,516.0	37,045.3	28,146.0
Minority interests	**2,057.1**	1,868.1	1,123.6	934.0	751.2
Shareholders' equity attributable to the parent company	**24,231.7**	23,093.9	16,825.3	14,249.5	12,137.2

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

Item	**2011**	2010	2009	2008	2007
Basic earnings per share (RMB/share) Note 1	**0.61**	0.98	0.78	0.53	0.40
Net asset per share (RMB/share) Note 2	**7.06**	6.87	5.31	4.53	3.86
Fully diluted return on net assets	**8.50%**	14.07%	14.61%	11.65%	10.32%

Note 1: 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 9,125,893 restricted shares remaining in lock-up. Basic earning per share for the same period of the previous year has been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

Note 2: Net asset per share attributable to shareholders of the listed company for 2011 were calculated on the basis of the number of shares representing the total share capital at the end of the period after deduction of 9,125,893 restricted shares remaining in lock-up under the share incentive plan. The corresponding amount for the previous has been restated to reflect the implementation of the 2010 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 2011 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

		At the beginning of the year		Increase/decrease as a result of the change during the year (+, –)					At the end of the year	
		Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve Note 1	Others Note 2	Sub-total	Number of shares	Percentage
I.	**Shares subject to lock-up**	**66,918,472**	**2.34%**	**–**	**–**	**13,416,689**	**(62,879,186)**	**(49,462,497)**	**17,455,975**	**0.51%**
1.	State-owned shares	–	–	–	–	–	–	–	–	–
2.	State-owned corporate shares	–	–	–	–	–	–	–	–	–
3.	Other domestic shares	60,141,711	2.10%	–	–	12,028,342	(63,044,160)	(51,015,818)	9,125,893	0.27%
	Comprising: domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
	Domestic natural person shares	60,141,711	2.10%	–	–	12,028,342	(63,044,160)	(51,015,818)	9,125,893	0.27%
4.	Foreign shares	–	–	–	–	–	–	–	–	–
	Comprising: foreign corporate shares	–	–	–	–	–	–	–	–	–
	Foreign natural person shares	–	–	–	–	–	–	–	–	–
5.	Senior management shares	6,776,761	0.24%	–	–	1,388,347	164,974	1,553,321	8,330,082	0.24%
II.	**Shares not subject to lock-up**	**2,799,813,212**	**97.66%**	**–**	**–**	**559,929,647**	**62,879,186**	**622,808,833**	**3,422,622,045**	**99.49%**
1.	RMB ordinary shares	2,275,158,674	79.36%	–	–	454,998,740	62,879,186	517,877,926	2,793,036,600	81.19%
2.	Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3.	Overseas-listed foreign shares (H shares)	524,654,538	18.30%	–	–	104,930,907	–	104,930,907	629,585,445	18.30%
4.	Others	–	–	–	–	–	–	–	–	–
III.	**Total number of shares**	**2,866,731,684**	**100.00%**	**–**	**–**	**573,346,336**	**–**	**573,346,336**	**3,440,078,020**	**100.00%**

Note 1: On 7 July 2011, the Company implemented the plan of capitalization of the capital reserve (creation of 2 shares for every 10 shared based on a total share capital then of 2,866,731,684 shares). Please refer to the relevant announcement published by the Company on 30 June 2011.

Note 2: (1) The unlocking of a total of 60,532,063 shares in the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of the Company was completed on 21 July 2011. For details, please refer to the "Announcement of the Completion of the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme of ZTE Corporation" published by the Company on 19 July 2011. (2) The unlocking of total of 5,230,667 shares in the Second Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company was completed on 29 December 2011. For details, please refer to the "Announcement of the Completion of the Second Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme of ZTE Corporation" published by the Company on 27 December 2011. (3) In accordance with relevant domestic regulations, shares held by the Directors, Supervisors or senior management shall be under lock-up on a pro-rata basis.

(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 note 1	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	742,169	0	148,434	890,603	Restricted senior management shares	Note 1
Chen Jie	412,863	0	145,573	558,436	Restricted senior management shares	Note 1
Ni Qin	395,425	0	137,495	532,920	Restricted senior management shares	Note 1
Xu Huijun	390,488	84,397	174,618	480,709	Restricted senior management shares	Note 1
Yin Yimin	395,520	0	79,104	474,624	Restricted senior management shares	Note 1
Zhao Xianming	390,487	95,625	137,011	431,873	Restricted senior management shares	Note 1
Zeng Xuezhong	351,000	75,000	149,700	425,700	Restricted senior management shares	Note 1
Fan Qingfeng	329,062	56,250	149,062	421,874	Restricted senior management shares	Note 1
Pang Shengqing	329,502	82,376	143,925	391,051	Restricted senior management shares	Note 1
Ye Weimin	288,589	0	98,659	387,248	Restricted senior management shares	Note 1
Others	62,893,367	63,285,104	12,852,674	12,460,937	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Total	**66,918,472**	**63,678,752**	**14,216,255**	**17,455,975**	–	–

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 (1) the implementation of the 2010 profit distribution and capitalization of capital reserve plans during the reporting period, (2) the acquisition of A shares of the Company in the secondary market by certain senior management and Supervisors of the Company. For details, please refer to the "Announcement on the Purchase of the Company's Shares by the Management of the Company" published by the Company on 27 June 2011. In accordance with relevant domestic regulations, up to 25% of the newly-held unrestricted shares may be transferred by the Directors, Supervisors and senior management during the year.

Changes in Share Capital and Information of Shareholders

(III) ISSUE AND LISTING OF SECURITIES

1. On 5 June 2009, the Company implemented the 2008 profit distribution and capitalization of capital reserve plans, whereby 3 shares were issued for every 10 shares held on the basis of a total share capital of 1,343,330,310 shares. Following the implementation, the total capital of the Company was increased by 402,999,092 shares.

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.

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.

5. On 24 June 2010, the Company implemented the 2009 profit distribution and capitalization of capital reserve plans, whereby 5 shares were issued for every 10 shares held on the basis of a total share capital of 1,911,154,456 shares. Following the implementation, the total capital of the Company was increased by 955,577,228 shares.

6. On 7 July 2011, the Company implemented the 2010 profit distribution and capitalization of capital reserve plans, whereby 2 shares were issued for every 10 shares held on the basis of a total share capital of 2,866,731,684 shares. Following the implementation, the total capital of the Company was increased by 573,346,336 shares.

7. 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 2011

Unit: shares

Total number of shareholders as at 31 December 2011	115,812 shareholders (of which 115,460 were holders of A shares and 352 were holders of H shares)
Total number of shareholders as at 29 February 2012	122,653 shareholders (of which 122,299 were holders of A shares and 354 were holders of H shares)

Shareholdings of top ten shareholders

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
1. Zhongxingxin	State-owned shareholders	30.76%	1,058,191,944	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.27%	628,535,379	0	Unknown
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	2.25%	77,335,839	0	Unknown
4. CITIC Trust Co.,Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	State-owned shareholders	1.09%	37,450,609	0	Unknown
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.99%	34,021,577	0	Unknown
7. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	Others	0.83%	28,490,925	0	Unknown
8. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	0.74%	25,569,044	0	Unknown
9. Taikang Life Insurance Co., Ltd. — Dividend — Individual Dividend — 019L — FH002 Shen	Others	0.71%	24,374,736	0	Unknown
10. Industrial and Commercial Bank of China — Bosera Third Industry Growth Stock Securities Investment Fund	Others	0.60%	20,572,134	0	Unknown

Shareholdings of top ten holders of shares not subject to lock-up

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,535,379	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	77,335,839	A shares
4. CITIC Trust Co.,Ltd. — Wealth Management 06	58,194,000	A shares
5. Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	34,021,577	A shares
7. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	28,490,925	A shares
8. China Life Insurance (Group) Company — Traditional — General Insurance Products	25,569,044	A shares
9. Taikang Life Insurance Co.,Ltd. — Dividend — Individual Dividend — 019L — FH002 Shen	24,374,736	A shares
10. Industrial and Commercial Bank of China — Bosera Third Industry Growth Stock Securities Investment Fund	20,572,134	A shares
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. There were no connected party relationships or concerted party relationships between Zhongxingxin and the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up listed above. 2. The 3rd and 6th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. The 8th ranking shareholder was managed by China Life Insurance Company (Group) Limited, the controlling shareholder of China Life Insurance Company Limited. 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.	

Changes in Share Capital and Information of Shareholders

	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 lockup held at the beginning of the year (shares)	Increase/ decrease during the year (shares)	Reasons for change	Circulating shares not subject to lockup held at the end of the year (shares)
Zhongxingxin	930,321,620	127,870,324	Note	1,058,191,944

Note: The change occurred as a result of: (1) Zhongxingxin's disposal of 48,495,000 shares in the Company via the securities exchange system of Shenzhen Stock Exchange on 13 June 2011. For details, please refer to the "Announcement on Sell-down by Shareholders" published by the Company on 13 June 2011; (2) the Company's implementation of the 2010 profit distribution and capitalization of capital reserve plans. Please refer to the relevant announcement published by the Company on 30 June 2011.

3. **Controlling shareholders of the Company**

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Organization number:	19222451-8
Registered capital:	RMB100 million
Scope of business:	Production of programmed switchboard cabinets, telephones and related components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727) ; 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; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

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

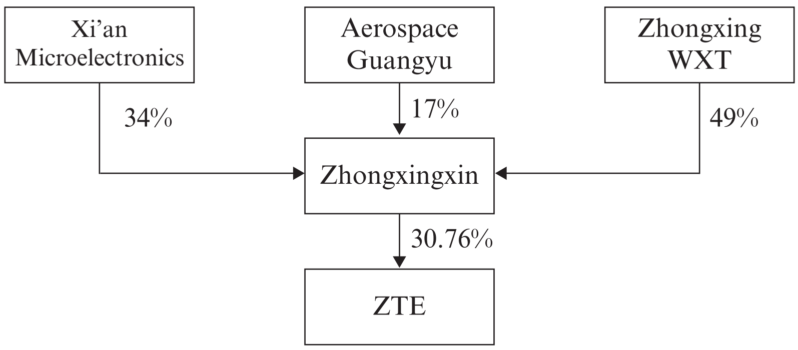
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 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. Its organization number is H0420141-X. 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 17 August 1989. The legal representative is Xie Weiliang and the registered capital amounts RMB17,950,000. Its organization number is 19217503-1. 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).

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. It organization number is 27941498-X. 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 2011:



Changes in Share Capital and Information of Shareholders

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

As at 31 December 2011, the following shareholders had interests or short positions in 5% or more of 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	Capacity	Number of shareholding	Approximate shareholding as a percentage (%) of	
			Total share capital	The relevant class of shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.76 (L)	37.65 (L)
Zhongxing WXT	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76 (L)	37.65 (L)
Xi'an Microelectronics	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76 (L)	37.65 (L)
China Aerospace Electronics Technology Research Institute (formerly known as China Aerospace Times Electronics Corporation)	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76 (L)	37.65 (L)
CASC	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76 (L)	37.65 (L)
Deutsche Bank Aktiengesellschaft	Beneficial owner, investment manager and Approved lending agent	57,906,394 H shares (L) 50,999,375 H shares (S)	1.68 (L) 1.48 (S)	9.19 (L) 8.10 (S)
JPMorgan Chase & Co.	Beneficial owner, investment manager and Approved lending agent	44,204,097 H shares (L)	1.28 (L)	7.02 (L)
	Beneficial owner	5,272,920 H shares (S)	0.15 (S)	0.84 (S)
	Approved lending agent	35,442,966 H shares (P)	1.03 (P)	5.63 (P)
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16 (L)[Note]	6.96 (L)[Note]
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	1.12 (L)	6.10 (L)
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H shares (L)	0.88 (L)[Note]	5.26 (L)[Note]
Sun Life Financial, Inc.	Interest of controlled corporation	8,428,100 H shares (L)	0.88 (L)[Note]	5.26 (L)[Note]
Allianz SE	Interest of controlled corporation	32,222,935 H shares (L)	0.94 (L)	5.12 (L)
FIL Limited	Investment manager	31,613,855 H shares (L)	0.92 (L)	5.02 (L)

(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 2011, 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, 70, 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 Limited. Mr. Hou has extensive experience in the telecommunications business with over 42 years' experience in management and business operations.

Mr. Lei Fanpei, 49, 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 CASC in April 2002. He has been deputy general manager of CASC since 2005 and the Vice Chairman of the Company since March 2010. Mr. Lei has substantial experience in management and business operations. Mr. Lei resigned from the positions of Vice Chairman and Non-executive Director of the Company on 9 February 2012.

Mr. Xie Weiliang, 56, 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 Aerospace Guangyu since 2003. He has been Vice Chairman of the Company since February 2004 and is concurrently chairman of Zhongxingxin, controlling shareholder of the Company. Mr. Xie has substantial experience in management and business operations.

Mr. Wang Zhanchen, 59, is a Non-executive Director of the Company. Mr. Wang graduated from Xi'an Artillery Engineering Institute in 1976. He has served as factory manager of Beijing Xinghua Machinery Factory of China Academy of Launch Vehicle Technology (CALT) during 1997 to 2001. He has been vice chairman of China Aerospace Times Electronics Co., Ltd. since June 2008 and a Non-executive Director of the Company since March 2010. Mr. Wang has substantial experience in management and business operations.

Mr. Zhang Junchao, 58, 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 deputy head of the CASC Foundational Electronic Technology Institute from 2000 to March 2003, and has been head of Shaanxi Management Division of China Aerospace Times Electronics Corporation (renamed as "China Academy of Aerospace Electronics Technology") and head of Xi'an Microelectronics Technology Institute since May 2003. 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 Zhongxingxin, controlling shareholder of the Company. Mr. Zhang has substantial experience in management and business operations.

Directors, Supervisors, Senior Management and Employees

Mr. Dong Lianbo, 55, 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. He has been a Non-executive Director of the Company since February 2004. He is concurrently director of Zhongxingxin, controlling shareholder of the Company. Mr. Dong has substantial experience in management and business operations.

Mr. Shi Lirong, 48, 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 Zhongxingxin. 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 has many years of experience in the telecommunications industry and over 21 years of management experience.

Mr. Yin Yimin, 48, 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 Zhongxingxin 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 21 years of management experience.

Mr. He Shiyou, 45, 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 Zhongxingxin in 1993 and previously was the chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's vice president from 1998 to 1999, responsible for divisions such as research and development and marketing. Since 1999, he has 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 19 years of management experience.

Ms. Qu Xiaohui, 58, 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 non-executive director of Yunnan Baiyao Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Taikang Life Insurance Co., Ltd..

Mr. Wei Wei, 46, 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 Non-executive Director of the Company since July 2009. Mr. Wei served as an independent non-executive 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 non-executive 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 non-executive director of Changyuan Group Company Limited (a company listed on Shanghai Stock Exchange), Dalian Zhangzidao Fishery Group Company Limited (a company listed on Shenzhen Stock Exchange) and Telling Telecommunication Holding Co., Ltd. (a company listed on Shenzhen Stock Exchange).

Mr. Chen Naiwei, 54, 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, 67, 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. He has been an Independent Non-executive Director of the Company since March 2010.

Mr. Timothy Alexander Steinert (石義德), 52, 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 chief legal officer 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). He has been an Independent Non-executive Director of the Company since June 2010. Mr. Steinert is a qualified lawyer in both Hong Kong and New York, the United States.

Directors, Supervisors, Senior Management and Employees

2. Secretary to the Board of Directors/Company Secretary

Mr. Feng Jianxiong, 38, 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, controlling shareholder of the Company, 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 12 years in managerial positions.

3. Biography of Supervisors

Mr. Zhang Taifeng, 70, 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 Xi'an Microelectronics. He joined Zhongxingxin, controlling shareholder of the Company, 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.

Ms. He Xuemei, 42, 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. Zhou Huidong, 36, 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.

Ms. Wang Yan, 47, is a Supervisor of the Company. Ms. Wang graduated from the Department of Management of Northeast Industrial Institute in July 1988, majoring in Industrial Accounting, with a bachelor's degree in engineering. Ms. Wang was qualified as an accountant in the PRC in December 1992 and further obtained the qualification of senior accountant in the PRC in September 1999. She joined Zhongxingxin, controlling shareholder of the Company, in 1999 and had been deputy general manager and chief accountant of Zhongxingxin. She has been a director and deputy general manager of Shenzhen Zhongxing Micro Finance Co., Ltd. in Shenzhen, and a Supervisor of the Company since June 2005.

Ms. Xu Weiyan, 49, 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 Zhongxingxin, controlling shareholder of the Company, 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, 49, is currently an Executive Vice President and Chief Financial Officer in charge of corporate finance and group investment management 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, controlling shareholder of the Company, 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 Zhongxingxin, controlling shareholder of the Company and chairman of ZTE Group Finance Co. Ltd.. Mr. Wei has many years of experience in the telecommunications industry, including over 23 years in managerial positions.

Mr. Xie Daxiong, 48, 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, controlling shareholder of the Company, 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 15 years in managerial positions.

Mr. Tian Wenguo, 43, 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. Mr. Tian joined Zhongxingxin, controlling shareholder of the Company, 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 Marketing Department of the Company. Mr. Tian has many years of experience in the telecommunications industry, including over 14 years in managerial positions.

Mr. Qiu Weizhao, 48, 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 23 years in managerial positions.

Directors, Supervisors, Senior Management and Employees

Mr. Fan Qingfeng, 43, 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, controlling shareholder of the Company 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 13 years in managerial positions.

Ms. Chen Jie, 53, has been a Senior Vice President of the Company since 2002 and is currently in charge of the Wireline Products Division under the Product Research and Development 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 1995 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. She worked as the senior researcher and manager of research department of AT&T Bell Laboratories in U.S. from 1995 to 1998. 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 and general manager of the Networking Operations Division. From 2007 onwards, she has been general manager of the Wireline and Services Products Division under the Marketing Department and general manager of the Wireline Products Division under the Product Research and Development Department, and has been responsible for the global research and development and sales of ZTE wireline products in a long-term capacity. Ms. Chen has substantial technological and professional knowledge with many years of managerial experience in both the domestic and international telecommunications industry.

Mr. Zhao Xianming, 45, has been a Senior Vice President of the Company since 2004 and is currently in charge of the Wireless Products 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 Products Division under the Research and Development Department. Mr. Zhao has many years of experience in the telecommunications industry, including over 20 years in managerial positions.

Mr. Pang Shengqing, 43, has been a Senior Vice President of the Company since 2005 and is currently in charge of the Solution Division under the Product Research and Development Department 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, controlling shareholder of the Company, 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. From 2005 to December 2011, he has been general manager of First Sales Division of the Sales Department of the Company, and since 2012 he has been the general manager of Solution Division under the Product Research and Development Department of the Company. He has many years of experience in the telecommunications industry, including over 13 years in managerial positions.

Mr. Zeng Xuezhong, 38, 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, controlling shareholder of the Company, in 1996. From 1997 to July 2006, Mr. Zeng was the Company's senior project manager, assistant to the regional general manager, manager of Guiyang branch and manager of Kunming branch, deputy general manager and general manager of the Second Sales Division and Vice President of the Company. Since August 2006, he has been Senior Vice President of the Company in charge of the Third Sales Division. Mr. Zeng has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

Mr. Xu Huijun, 39, 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 Division of the Sales Department. Mr. Xu has many years of experience in the telecommunications industry, including over 13 years in managerial positions.

Mr. Ye Weimin, 46, has been a Senior Vice President of the Company since 2001 and is currently in charge of ZTE Kangxun of the Company's Logistics Department. 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, controlling shareholder of the Company, 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 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 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 19 years in intermediate to senior management.

Mr. Ni Qin, 52, has been a Senior Vice President of the Company since 1998 and is currently in charge of Cloud Computing and IT Product Division. 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, controlling shareholder of the Company, from 1994 to 1997. Since 1998, he has been Senior Vice President of the Company in charge of the Access Product Division, the Handset Division and IT construction. Mr. Ni has many years of experience in the telecommunications industry, including over 17 years in managerial positions.

Mr. Wu Zengqi, 47, 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 and general manager of North Africa region of the Fifth Sales Division from 1999 to 2006. Since 2007, 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 12 years in managerial positions.

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Mr. Zhu Jinyun, 40, 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 12 years in managerial positions.

Mr. Zhang Renjun, 43, has been a Senior Vice President of the Company since 2009 and is currently in charge of the First 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 2011, 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, and general manager of the Second Sales Division. Mr. Zhang has many years of experience in the telecommunications industry, including over 12 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 Note 4	
Hou Weigui	Chairman	Male	70	3/2010	3/2013	989,560	1,187,472	Note 1	115.1	0	0	–	0	No
Lei Fanpei	Vice Chairman	Male	49	3/2010	2/2012	0	0	–	10.0	0	0	–	0	Yes
Xie Weiliang	Vice Chairman	Male	56	3/2010	3/2013	27,300	32,760	Note 1	10.0	32,760	0	30.05	0	Yes
Wang Zhanchen	Director	Male	59	3/2010	3/2013	0	0	–	10.0	0	0	–	0	Yes
Zhang Junchao	Director	Male	58	3/2010	3/2013	27,300	32,760	Note 1	10.0	32,760	0	30.05	0	Yes
Dong Lianbo	Director	Male	55	3/2010	3/2013	27,300	32,760	Note 1	10.0	32,760	0	30.05	0	Yes
Shi Lirong	Director and President	Male	48	3/2010	3/2013	300,425	360,511	Note 1	302.3	0	0	–	0	No
Yin Yimin	Director	Male	48	3/2010	3/2013	527,361	632,833	Note 1	37.4	0	0	–	0	No
He Shiyou	Director and Executive Vice President	Male	45	3/2010	3/2013	287,450	344,940	Note 1	148.2	0	0	–	0	No
Qu Xiaohui	Independent Non-executive Director	Female	58	3/2010	3/2013	0	0	–	13.0	0	0	–	0	No
Wei Wei	Independent Non-executive Director	Male	46	3/2010	3/2013	0	0	–	13.0	0	0	–	0	No
Chen Naiwei	Independent Non-executive Director	Male	54	3/2010	3/2013	0	0	–	13.0	0	0	–	0	No
Tan Zhenhui	Independent Non-executive Director	Male	67	3/2010	3/2013	0	0	–	13.0	0	0	–	0	No
Timothy Alexander Steinert	Independent Non-executive Director	Male	52	6/2010	3/2013	0	0	–	13.0	0	0	–	0	No
Zhang Taifeng	Chairman of the Supervisory Committee	Male	70	3/2010	3/2013	332,187	398,625	Note 1	115.1	0	0	–	0	No
He Xuemei	Supervisor	Female	42	3/2010	3/2013	0	30,347	Note 1, 2	61.7	0	0	–	0	No
Zhou Huidong	Supervisor	Male	36	6/2010	3/2013	40,131	78,158	Note 1, 2	67.3	48,158	0	30.05	0	No
Wang Yan	Supervisor	Female	47	3/2010	3/2013	0	0	–	0	0	0	–	0	Yes
Xu Weiyan	Supervisor	Female	49	3/2010	3/2013	7,666	9,199	Note 1	65.0	0	0	–	0	No

										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 [Note 4]	Whether remuneration is received from shareholder entities or other connected entities
Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	49	3/2010	3/2013	322,850	387,421	Note 1	116.5	0	0	–	0	No
Xie Daxiong	Executive Vice President	Male	48	3/2010	3/2013	414,410	498,492	Note 1, 2	130.9	327,600	0	30.05	0	No
Tian Wenguo	Executive Vice President	Male	43	3/2010	3/2013	233,316	363,979	Note 1, 2	131.3	327,600	0	30.05	0	No
Qiu Weizhao	Executive Vice President	Male	48	3/2010	3/2013	273,000	411,600	Note 1, 2	125.2	327,600	0	30.05	0	No
Fan Qingfeng	Executive Vice President	Male	43	3/2010	3/2013	363,750	562,500	Note 1, 2	126.9	491,400	0	30.05	0	No
Chen Jie	Senior Vice President	Female	53	3/2010	3/2013	550,485	744,583	Note 1, 2	159.9	327,600	0	30.05	0	No
Zhao Xianming	Senior Vice President	Male	45	3/2010	3/2013	393,150	431,873	Note 1, 2	109.7	589,680	0	30.05	0	No
Pang Shengqing	Senior Vice President	Male	43	3/2010	3/2013	329,502	521,402	Note 1, 2	117.8	491,400	0	30.05	0	No
Zeng Xuezhong	Senior Vice President	Male	38	3/2010	3/2013	368,000	567,600	Note 1, 2	146.9	491,400	0	30.05	0	No
Xu Huijun	Senior Vice President	Male	39	3/2010	3/2013	408,121	510,945	Note 1, 2	118.5	589,680	0	30.05	0	No
Ye Weimin	Senior Vice President	Male	46	3/2010	3/2013	384,786	516,331	Note 1	122.6	327,600	0	30.05	0	No
Ni Qin	Senior Vice President	Male	52	3/2010	3/2013	527,233	710,560	Note 1	140.2	327,600	0	30.05	0	No
Wu Zengqi	Senior Vice President	Male	47	3/2010	3/2013	336,375	486,570	Note 1, 2	128.2	491,400	0	30.05	0	No
Zhu Jinyun	Senior Vice President	Male	40	3/2010	3/2013	304,450	482,460	Note 1, 2	90.5	457,675	0	30.05	0	No
Zhang Renjun	Senior Vice President	Male	43	3/2010	3/2013	0	0	–	94.8	0	0	–	0	No
Feng Jianxiong	Secretary to the Board of Directors	Male	38	3/2010	3/2013	262,500	315,000	Note 1	84.1	327,600	0	30.05	0	No
Total	–	–	–	–	–	8,038,608	10,651,681	–	2,971.1	6,041,273	0	–	0	–

Note 1: Capitalisation of capital reserve plans (creation of 2 shares for every 10 shares) were implemented on 7 July 2011. 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: 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 4: The third unlocking of shares granted to the Directors and senior management of the Company under the Share Incentive Scheme was completed on 21 July 2011. For details, please refer to the Announcement of the Company on the Completion of the Third Unlocking of Subject Shares Granted under the First Award of the Phase I Share Incentive Scheme published on 19 July 2011.

(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 and deputy general manager	Since 2003
Zhang Taifeng	Zhongxingxin	Vice chairman	2010.4–2013.5
Wei Zaisheng	Zhongxingxin	Director	2010.4–2013.5

Directors, Supervisors, Senior Management and Employees

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

Name	Name of shareholder	Term of office
Hou Weigui	Holding positions in 17 subsidiaries including Zhongxing Software	Chairman/director
	Zhongxing WXT	Chairman
	Zhongxing Development	Chairman
	Zhongxing Energy Company Limited	Chairman
Lei Fanpei Note	China Aerospace Corporation	Vice Chairman
	Beijing Shenzhou Aerospace Software Technology Co., Ltd. (北京神舟航天軟件技術有限公司)	Chairman
	China Astronautic Publishing House Co., Ltd.	Executive director
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial (Group) Company	General manager
Wang Zhanchen	China Aerospace Times Electronics Co., Ltd.	Vice Chairman
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial (Group) Company	Deputy general manager
Qu Xiaohui	Xiamen University	Head/professor
	Yunnan Baiyao Group Co., Ltd.	Independent Non-executive Director
	Taikang Life Insurance Co., Ltd	Independent Non-executive Director
Wei Wei	Peking University HSBC Business School	Associate dean
	Shenzhen Changyuan Group Company Limited	Independent Non-executive Director
	Dalian Zhangzidao Fishery Group Company Limited	Independent Non-executive Director
	Telling Telecommunication Holding Co., Ltd.	Independent Non-executive 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/director
Shi Lirong	Holding positions in 12 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	Zhongxing Energy Company Limited	Director
	Zhongxing Energy (Tianjin) Company Limited	Director
Yin Yimin	Holding positions in 9 subsidiaries including ZTE Kangxun	Vice chairman/director
	Zhongxing WXT	Vice chairman
	Shenzhen Hekang Investment Management Company Limited	Executive director
	Shenzhen Zhongxing Capital Management Company Limited	Chairman
He Shiyou	Holding positions in 4 subsidiaries including Shenzhen Zhongxing Mobile Technology Company Limited	Chairman/director
	Zhongxing WXT	Supervisor
Wei Zaisheng	Holding positions in 18 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director

Name	Name of shareholder	Term of office
	Zhongxing Energy Company Limited	Director
	Shenzhen Chuangxin Investment Group Company Limited (深圳創新投資集團有限公司)	Supervisor
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
Tian Wenguo	Holding positions in 5 subsidiaries including Shenzhen Zhongxing Supply Chain Co., Ltd (深圳市中興供應鏈有限公司)	Chairman/director
Qiu Weizhao	Shenzhen Zhongxing Microelectronics Technology Company Limited (深圳市中興微電子技術有限公司)	Director
Fan Qingfeng	Holding positions in 4 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited (深圳市中聯成電子發展有限公司)	Chairman/director/general manager
Chen Jie	Holding positions in 13 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/board secretary/ general manager
Zhao Xianming	Holding positions in 3 subsidiaries including ZTE Integration Telecom Limited	Chairman/director
Pang Shengqing	Holding positions in 2 subsidiaries including ZTE Japan K.K.	Director
Zeng Xuezhong	Holding positions in 6 subsidiaries including Anhui Wantong Posts and Telecommunications Company Limited	Chairman
Xu Huijun	Holding positions in 4 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company Limited	Chairman/director
Ni Qin	Tianjin Zhongxing Software Company Limited	Director
Zhu Jinyun	ZTE (USA) Inc.	Director
Zhang Renjun	ZTE (H.K) Limited Ethiopian Branch	Chairman
Zhou Huidong	Holding positions in 6 subsidiaries including Shenzhen Zhongxing Netview Technology Company Limited	Supervisor
Wang Yan	Holding positions in 4 subsidiaries including Zhongxing Xinyu	Director/supervisor/deputy general manager
Feng Jianxiong	Holding positions in 4 subsidiaries including Shenzhen Zhongxing Telecom Technology & Service Company Limited	Director/supervisor

Note: Mr Lei resigned from the positions of Non-executive Director and Vice Chairman of the Company on 9 February 2012.

Directors, Supervisors, Senior Management and Employees

(V) CHANGES IN DIRECTORS SUPERVISORS AND SENIOR MANAGEMENT

1. There are no changes in the Directors, Supervisors and senior management of the Company during the year.

2. Changes in the Directors, Supervisors, senior management of the Company after the end of the year

The Board of the Company received a resignation in writing from Mr. Lei Fanpei on 9 February 2012. Because of the redeployment of his work, Mr. Lei Fanpei wishes to resign from the positions of Non-executive Director, Vice Chairman of the Fifth Session of the Board of Directors and member of the Remuneration and Evaluation Committee under the Board of Directors. Mr. Lei's resignation became effective upon delivery to the Board of Directors. Following his resignation, Mr. Lei will not hold any position at the Company.

At the Twenty-fifth Meeting of the Fifth Session of the Board of Directors held on 22 February 2012, the Fifth Session of the Board of Directors nominated Mr. Zhang Jianheng as the candidate for Non-independent Director of the Company and approved the tabling of the proposal on the candidate for Non-independent Director at the First Extraordinary General meeting of 2012 of the Company to be convened on 11 April 2012. Mr. Zhang Jianheng's appointment shall be for a term commencing on the date of consideration and approval at the First Extraordinary General Meeting of 2012 and ending upon the conclusion of the term of the Fifth Session of the Board of Directors (namely 29 March 2013).

At the fifth meeting of the Nomination Committee of the Fifth Session of the Board of Directors held on 27 March 2012 and the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012, the "Resolution of the Company on the Appointment of Senior Management Personnel" was considered and passed, whereby it was approved that Mr. Wang Jiaran, general manager of the Second Sales Division, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the current Board meeting and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013), and that Mr. Chen Jianzhou, Assistant to the President and Structure and Process Officer of the Company, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the current Board meeting and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013).

(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	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	9	6	2	1	0	Nil
Lei Fanpei	Vice Chairman and Non-executive Director	9	1	2	6	0	Yes Note 1
Xie Weiliang	Vice Chairman and Non-executive Director	9	4	2	3	0	Nil
Wang Zhanchen	Non-executive Director	9	3	2	4	0	Yes Note 2
Zhang Junchao	Non-executive Director	9	4	2	3	0	Yes Note 3
Dong Lianbo	Non-executive Director	9	7	2	0	0	Nil
Shi Lirong	Executive Director	9	6	2	1	0	Nil
Yin Yimin	Executive Director	9	5	2	2	0	Nil
He Shiyou	Executive Director	9	5	2	2	0	Nil
Qu Xiaohui	Independent Non-executive Director	9	5	2	2	0	Nil
Wei Wei	Independent Non-executive Director	9	5	2	2	0	Nil
Chen Naiwei	Independent Non-executive Director	9	6	2	1	0	Nil
Tan Zhenhui	Independent Non-executive Director	9	6	2	1	0	Nil
Timothy Alexander Steinert	Independent Non-executive Director	9	6	2	1	0	Nil
Board meetings held during the year							9
Including: on-site meetings							1
Meetings via communications means							2
On-site meetings assisted by communications means							6

Note 1: Vice Chairman Mr. Lei Fanpei did not attend the Sixteenth, Seventeenth and Eighteenth Meeting 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. Mr. Lei did not attend the Twenty Third Meeting of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Vice Chairman Mr. Xie Weiliang to vote on his behalf. Mr. Lei did not attend the Twenty Fourth Meeting of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Independent Non-executive Director Mr. Wei Wei to vote on his behalf.

Note 2: Director Mr. Wang Zhanchen did not attend the Seventeenth Meeting 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. Director Mr. Wang Zhanchen did not attend the Eighteenth Meeting of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Director Mr. Zhang Junchao to vote on his behalf.

Note 3: Director Mr. Zhang Junchao did not attend the Twenty Second and the Twenty Third Meeting of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Director Mr. Wang Zhanchen to vote on his behalf. Mr. Zhang did not attend the Twenty Forth Meeting of the Fifth Session of the Board of Directors owing to work reasons and appointed in writing Director Mr. Dong Lianbo to vote on his behalf.

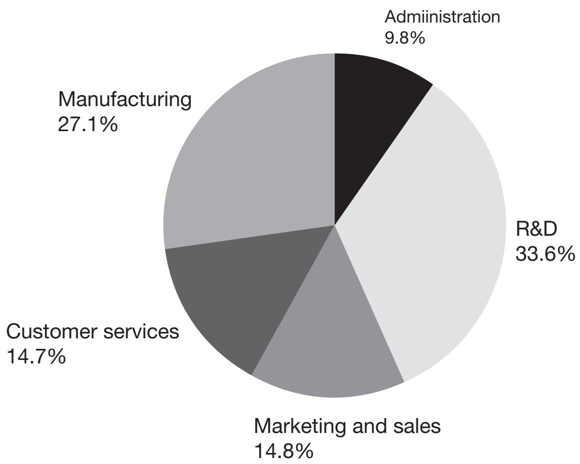
Directors, Supervisors, Senior Management and Employees

(VII) HEADCOUNT AND CLASSIFICATION OF GROUP EMPLOYEES

As at the end of the year, the Group had 89,786 employees [Note], with an average age of 30. There were 76 retired employees.

1. Classification by specialisation as follows:

Specialisation	Number of employees	Approximate percentage of total number of employees (%)
R&D	30,187	33.6%
Marketing and sales	13,274	14.8%
Customer service	13,205	14.7%
Manufacturing	24,355	27.1%
Administration	8,765	9.8%
Total	89,786	100.0%



2. Classification by academic qualifications as follows:

Academic qualifications	Number of employees	Approximate percentage of total number of employees (%)
Doctorate degree	515	0.6%
Master's degree	24,127	26.9%
Bachelor's degree	33,882	37.7%
Others	31,262	34.8%
Total	89,786	100.0%

Note: Among which 72,096 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 Hong Kong Stock Exchange Listing Rules, 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 Company stipulated in the Articles of Association the types and amounts of derivative investments within the discretionary powers of the Board of Directors in accordance with requirements of the "Information Disclosure Memorandum No. 26 — Derivative Investments" issued by the Shenzhen Stock Exchange. The "ZTE 2011 Internal Control Development Plan and Implementation Scheme" was formulated in compliance with the "Notice on the Publication of Supplementary Guidelines for Corporate Internal Control" jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the "Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen" issued by the Shenzhen CSRC, and an internal control development project team was established to carry out internal control development work.

At the end of the reporting period, the status of corporate governance of the Company was in compliance with provisions of regulatory documents relating to the governance of listed companies published by the CSRC. The Company has not received any documents relating to administrative regulatory measures adopted by regulatory authorities against the Company.

(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 Non-executive 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 Chief Executive Officer 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 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 controlling shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during 2011.

(VIII) Rules and regulations established

No.	Title	Date of disclosure Note
1	Articles of Association	10 November 2011
2	Rules of Procedure of the General Meetings	20 May 2009
3	Rules of Procedure of the Board of Directors Meetings	11 April 2005
4	Rules of Procedure of the Supervisors' Meetings	11 April 2005
5	Terms of Reference for the Nomination Committee of the Board of Directors	29 March 2012
6	Terms of Reference for the Audit Committee of the Board of Directors	29 March 2012
7	Terms of Reference for the Remuneration and Evaluation Committee of the Board of Directors	29 March 2012
8	System of Derivative Investment Risk Control and Information Disclosure	28 April 2010
9	System for the Administration of External Information Users	9 April 2010
10	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
11	System of Registration of Owners of Insider Information	28 October 2009
12	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
13	System of Annual Report Duties for Independent Directors	14 March 2008
14	Independent Director System	26 June 2007
15	Administrative Measures for Guest Reception and Promotion	26 June 2007
16	Administrative Rules of the Company on Issue Proceeds	26 June 2007
17	Internal Control System	26 June 2007
18	Administrative Rules Information Disclosure	26 June 2007
19	Implementation Rules for the Dealings in Company Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007

Note: The dates on which the latest revised versions of the above rules and regulations being posted on http://www.cninfo.com.cn

Corporate Governance Structure

II. Establishment, Improvement and Performance of the Independent Non-executive Director System

During the year, the Independent Non-executive 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 Non-executive 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 and external investments), the Independent Non-executive Directors have diligently reviewed the matters concerned and have issued written independent opinions. The Independent Non-executive 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 Non-executive Directors of the Company at Board of Directors meetings and general meetings 2011 was as follows:

Name of Independent Non-executive Directors	Number of Board meetings required to attend	Attendance in person	Attendance by proxy	Absence	Attendance at General Meetings
Qu Xiaohui	9	7	2	0	1
Wei Wei	9	7	2	0	1
Chen Naiwei	9	8	1	0	0
Tan Zhenhui	9	8	1	0	1
Timothy Alexander Steinert	9	8	1	0	1

III. "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 organizations 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).

IV. 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.

V. Report of Corporate Social Responsibility

In 2011, the Company continued to persist in the fulfillment of its vision and strategies in corporate social responsibility, while maintaining stable growth in operating income. As an official signatory to the United Nations Global Compact and a member of GeSI and Green TouchTM, the Group has been working to incorporate the tenets of corporate social responsibility and sustainable development into its operations and corporate culture, seeking to develop more advanced and eco-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 2011, the Group continued to carry out large-scale discussions on the culture of excellence, as staff, officers and the management contributed their thoughts and ideas towards the improvement of the Group's development blueprint, while the management and staff candidly exchanged views and engaged in in-depth communications at the ZTE Forum. Our efforts in corporate social responsibility have been widely recognised by customers, governments, international organizations and the media. During the reporting period, the Group did not have any significant environment or other significant social safety issues.

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 29 March 2012.

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

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 2011.

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.

Corporate Governance Structure

Details of the shareholding structure of the Company are set out in the section 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 Company, 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.

(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 2011 are set out in the section of this report headed "Material Matters (XIV) 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 of the Company 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 2011. 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 (Mr Shi Lirong) and 2 Executive Directors (Mr Yin Yimin and Mr He Shiyou), all Directors are Non-executive Directors independent of the management, including 5 Independent Non-executive Directors, namely Ms Qu Xiaohui, Mr Wei Wei, Mr Chen Naiwei, Mr Tan Zhenhui and Mr Timothy Alexander Steinert, who possess academic and professional qualifications as well as substantial experience in the telecommunications, financial, legal and banking sectors and who have influence in relevant sectors and are proactive in the performance of their duties, and 6 Non-executive Directors, namely Mr Hou Weigui, Mr Lei Fanpei, Mr Xie Weiliang, Mr Wang Zhanchen, Mr Zhang Junchao and Mr Dong Lianbo, 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 “Directors, Supervisors, Senior Management and Employees”.

The Company confirms that it has received annual written confirmations of independence from all the Independent Non-executive 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 all the Independent Non-executive Directors are independent persons.

(III) Appointment and Removal of Directors

Each Director (including Non-executive 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 “Directors, Supervisors, Senior Management and Employees — (V)”.

Corporate Governance Structure

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2011, the Board of Directors of the Company convened 9 working meetings, the details of which are set out under the section headed "(II) 16. Daily Work of the Board of Directors" in the Report of the Board of Directors of this annual report. Attendance of Directors at the meetings of the Board of Directors in 2011 was set out in the following table:

Directors	Attendance in person	Attendance by proxy
Chairman and Non-executive Director		
Hou Weigui	8	1
Vice Chairman and Non-executive Director		
Lei Fanpei	3	6
Xie Weiliang	6	3
Non-executive Director		
Wang Zhanchen	5	4
Zhang Junchao	6	3
Dong Lianbo	9	0
Executive Director		
Shi Lirong	8	1
Yin Yimin	7	2
He Shiyou	7	2
Independent Non-executive Director		
Qu Xiaohui	7	2
Wei Wei	7	2
Chen Naiwei	8	1
Tan Zhenhui	8	1
Timothy Alexander Steinert	8	1

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 voting by communication 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 Twenty-second Meeting of the Fifth Session of the Board of Directors held on 30 August 2011, 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 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, resolutions to elect new members of the Nomination Committee and the Remuneration and Evaluation Committee was considered and approved at a meeting of the Fifth Session of the Board of Directors, whereby Mr. Timothy Alexander Steinert, Independent Non-executive Director, was elected a member of the Nomination Committee and of the Remuneration and Evaluation Committee. Specific terms of reference have been formulated for each of the specialist committees, stipulating, among other things, the duties and powers of these committees. The order of meeting for the specialist committees is implemented by reference to the statutory procedures for meetings of the Board of Directors.

Corporate Governance Structure

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 Fifth Session of the Board of Directors is Independent Non-executive Director Mr. Wei Wei. Members of the committee include Mr. Hou Weigui, Mr. Lei Fanpei, Ms. Qu Xiaohui, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert. The Remuneration and Evaluation held 6 meetings in 2011. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Wei Wei	6	0
Hou Weigui	5	1
Lei Fanpei	3	3
Qu Xiaohui	5	1
Tan Zhenhui	4	2
Timothy Alexander Steinert	6	0

(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 2011 to:

a) review and approve the preliminary plan for 2011 performance appraisal of the Executive Vice Presidents and Senior Vice Presidents of the Company;

b) review and approve the 2010 remuneration implementation report of the Company;

c) review and approve the resolution in respect of the 2010 annual performance of and annual bonus for the President;

d) review and approve the resolution in respect of the 2010 annual performance of and annual bonus for other senior management;

e) review and approve the resolution in respect of the principles for determining the amount of 2010 bonus for the Chairman of the Board of Directors and the Chairman of the Supervisory Committee;

f) review and approve the 2011 remuneration budget of the Company;

g) review and approve Measures for the Administration of the 2011 Annual Performance of the President;

h) review and approve Measures for the Administration of the 2011 Annual Performance of other senior management;

i) review and approve the amendment of Measures for the Administration of the 2011 Annual Performance of the President;

j) review and approve the report on the amendment of rules for the calculation of 2011 performance bonus;

k) review and approve the the resolution on the third 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;

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

m) review and approve the resolution on the renewal of the liability insurance for Directors, Supervisors and senior management and submit the same for review and approval by the Board of Directors of the Company;

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

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

2. The Nomination Committee

(1) The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles 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 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.

Corporate Governance Structure

The Nomination Committee held 1 meeting in 2011. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Tan Zhenhui	0	1
Hou Weigui	1	0
Xie Weiliang	0	1
Wang Zhanchen	0	1
Wei Wei	1	0
Chen Naiwei	1	0
Timothy Alexander Steinert	1	0

(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 2011, the Nomination Committee held 1 meeting mainly to consider the resolution in respect of the work report of the Nomination Committee of the Fifth Session of the Board of Directors.

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 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 composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Stock Exchange Listing Rules.

The Audit Committee held 9 meetings in 2011. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Qu Xiaohui	8	1
Hou Weigui	8	1
Zhang Junchao	5	4
Dong Lianbo	9	0
Wei Wei	8	1
Chen Naiwei	8	1
Tan Zhenhui	8	1

(3) Work of the Audit Committee during the year

In 2011, the Audit Committee held 9 meetings mainly to:

a) review the financial report of the Company for the year ended 31 December 2010, and submit the same to the Board of Directors for consideration and approval;

b) receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2010;

c) review the resolution on the Company's internal control work plan and implementation scheme for 2011;

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

e) receive the report of Ernst & Young on the financial audit of the Company in 2010;

f) receive the explanatory statement of Ernst & Young on the 2010 continuing connected transactions of the Company;

g) review the resolution on the Company's write-off of bad debt for 2010 and submit the same to the Board of Directors for consideration and approval;

h) review the summary report on the audit of the Company performed by the PRC and international auditors in 2010;

i) review the audit fees payable to the PRC and international auditors for the year ended 31 December 2010 and submit the same to the Board of Directors for consideration and approval;

j) review resolutions of the Company on the appointment of PRC and international auditors for 2011 and submit the same to the Board of Directors and General Meeting for consideration and approval;

k) review the resolution of the Company for the application of derivative investment quota for 2011 and submit the same to the Board of Directors and the General Meeting for consideration and approval;

l) review the self-assessment report on internal control of the Company for the year ended 31 December 2010;

m) review the internal audit and internal control testing reports of the Company for the year ended 31 December 2010;

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n) review the resolution on matters pertaining to the debt financing of ZTE (H.K.) Limited and submit the same to the Board of Directors for consideration and approval;

o) review the report on the preparation of the report of the Company for the first quarter of 2011 and submit the same to the Board of Directors for consideration and approval;

p) review the report of the Company on derivative investments in the first quarter of 2011;

q) review the report of the Company on the implementation of its internal control plan in the first quarter of 2011;

r) review the report of the Company on litigation and arbitration in the first quarter of 2011;

s) review the interim financial report of the Company for the six months ended 30 June 2011 and submit the same to the Board of Directors for consideration and approval;

t) receive the report of Ernst & Young on its advisory work for the preparation of the Company's financial report for the first six months of 2011;

u) review the resolution on the Company's write-off of bad debt for the first six months of 2011 and submit the same to the Board of Directors for consideration and approval;

v) review the 2011 interim internal control work report for the six months ended 30 June 2011;

w) review the 2011 interim report on internal audit and internal control testing for the six months ended 30 June 2011;

x) review the report of the Company on derivative investments in the first six months of 2011;

y) review the report on the preparation of the report of the Company for the third quarter of 2011 and submit the same to the Board of Directors for consideration and approval;

z) review the resolution of the Company on continuing connected transactions and submit the same to the Board of Directors for consideration and approval;

aa) review the resolution of the Company on the appointment of internal control audit firm and fixing of audit fee for 2011 and submit the same to the Board of Directors for consideration and approval;

bb) review the report of Company on the implementation of internal control plan for the third quarter of 2011;

cc) review the report of the Company on derivative investments in the first three quarters of 2011;

dd) review the resolution of the Company on the connected transaction relating to the lease of property and submit the same to the Board of Directors for consideration and approval; and

ee) review the resolution of the Company on the revision of the cap for the aggregated amount of transactions with connected parties in 2011 and submit the same to the Board of Directors for consideration and approval.

(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 offices of the Chairman and that of the Chief Executive Officer are two distinctively separated positions, assumed by Mr. Hou Weigui and Mr. Shi Lirong, respectively. Their respective duties and functions are clearly defined in the Articles of Association. Duties of the Chairman and the Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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 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. There was no change in the Supervisors of the Company during the year.

The Supervisory Committee convened 6 meetings in 2010. Attendance of meetings is set out as follows:

Supervisors	Attendance in person	Attendance by proxy
Zhang Taifeng	6	0
He Xuemei	6	0
Wang Yan	5	1
Zhou Huidong	4	2
Xu Weiyan	6	0

Corporate Governance Structure

(II) ***Details of the Supervisory Committee meetings convened during the year and the work of the Supervisory Committee in 2011 are set out in the section of this annual report headed "Report of the Supervisory Committee".***

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

(I) Remuneration

Please refer to the section of this annual report headed "Directors, Supervisors, Senior Management and Employees — (II)" 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 2011.

(3) Interests of Directors, Supervisors and Chief Executive Officer in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2011 are set out in the section of this annual report headed "Directors, Supervisors, Senior Management and Employees — (II)".

Save as disclosed above, as at 31 December 2011, none of the Directors, Supervisors and Chief Executive Officer of the Company 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 SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, 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 2011, none of the Directors, Supervisors or the Chief Executive Officer of the Company, 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 the year of 2011.

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 35 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 7 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditors for 8 consecutive years since 2004. The undersigning accountants of Ernst & Young Hua Ming are Mr. Huang Yuedong and Mr. Li Yuxing. Mr. Huang Yuedong has been providing audit services to the Company for 4 years and the year under review was the first year for which he acted in the capacity of undersigning accountant. Mr. Li Yuxing has been providing audit services to the Company for 3 years and the year under review was the second year for which he acted in the capacity of undersigning accountant.

Financial statement audit fees payable to the PRC auditor and the Hong Kong auditor for 2011 were paid in a consolidated manner, whereby an aggregate audit fee of RMB5.68 million was paid to Ernst & Young Hua Ming and Ernst & Young.

At the Twenty-third Meeting of the Fifth Session of the Board of Directors of the Company on 27 October 2011, it was approved that Ernst & Young Hua Ming be appointed the Company's internal control auditor for 2011 and that the 2011 internal control audit fee payable to Ernst & Young Hua Ming be fixed at RMB0.90 million. Based on the 2011 internal control audit carried out and consultation with Ernst & Young Hua Ming, the actual amount of 2011 internal control audit fee payable to by the Company was RMB0.80 million.

In 2011, Ernst & Young provided tax return and tax advisory services to the Company and its subsidiary ZTE HK, in connection with which the Company paid a fee of HK$82,500. Save as aforesaid, the Company did not pay any remuneration in connection with other non-audit related services to the aforesaid auditors.

Item	Amount	Auditor
Audit fees 2011	RMB5.68 million	Ernst & Young Hua Ming (domestic) Ernst & Young (Hong Kong)
Internal control fees 2011	RMB0.80 million	Ernst & Young Hua Ming
Fees for tax return and tax advisory services 2011	HK$82,500	Ernst & Young

Corporate Governance Structure

VII. Accountability and Audit

The Directors of the Company confirm that they are responsible for providing balanced, objective assessments which are clear and easy to understand in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other price-sensitive announcements and other financial disclosures required under the Hong Kong Stock Exchange Listing Rules, and disclosing information to regulatory authorities in accordance with statutory requirements. If the Directors become aware of significant uncertainties or conditions that might have an adverse material impact on the ability of the Company to operate as a going concern, the Directors must provide a clear disclosure and detailed discussion of such uncertainties in the corporate governance report.

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2011 is set out in the report of the Independent auditors in page 276 of this Annual Report.

VIII. 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 2011. The "ZTE 2011 Internal Control Development Plan and Implementation Scheme" was formulated in early 2011 and an internal control development project team was set up. During the year, streamlining of risk types, formulation of risk checklist, process streamlining, self-inspection of internal control, rectification of deficiencies and compilation of the internal control manual were conducted in respect of corporate governance and important business processes by the internal control development project team in accordance with "ZTE 2011 Internal Control Development Plan and Implementation Scheme". All in all, the Company has established and effectively implemented an internal control regime that meets its operational needs and covers all segments of the Company's operation. The Company will continue to adjust and improve the development of its internal control regime in a timely manner in response to changes in internal and external conditions.

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 2011.

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 2011, please refer to the section headed "Internal Control".

Internal Control

I. OVERVIEW OF THE COMPANY'S INTERNAL CONTROL DEVELOPMENT

In order to enhance internal control, improve the Company's operational management standard and risk aversion ability and ensure the security, compliance and effective operation of the Company's assets, the Company has established a reasonable and effectively operating internal control regime in accordance with provisions of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, Rules for Corporate Internal Control, Supplementary Guidelines for Corporate Internal Control and Guidelines for Internal Control of Listed Companies and other pertinent laws, regulations and regulatory documents.

1. Overview of internal control development and improvement

The Company's internal control establishment has basically covered all operating segments of the Company, including but not limited to: organizational structure, development strategy, social responsibility, corporate culture, human resources, asset management, treasury activities, sales operation, procurement activities, construction projects, outsourcing, financial reporting, guarantees, research and development, contract management, total budgeting, internal information dissemination and information system, etc. The Company has, taking into account its specific conditions, 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, Administrative Rules of the Company on Issue Proceeds, System of Registration of Owners of Insider Information, System for the Administration of External Information Users, System of Accountability for Significant Errors in Information Disclosure of Annual Reports, System of Derivative Investment Risk Control and Information Disclosure, Administrative Measures on Third-party Guarantees, Administrative Measures on Connected Transactions and Administrative Measures on Equity Investment in Operating Subsidiaries, etc.

The Company further enhanced its efforts in the building and management of the internal control regime in 2011. A dedicated department was responsible for regulating the process of the formulation, approval and publication of the internal control system, so as to regulate the Company's internal business process and management and to control risks arising during the course of the Company's business operation. In addition to systematic streamlining of original rules and regulations, the Company also conducted internal control system mirroring in accordance with the Supplementary Guidelines for Corporate Internal Control jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC, whereby the internal operating and management systems were examined , amended and abolished with a view to ongoing improvement and perfection of the Company's internal control regime.

2. Establishment of internal control departments

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board, the Audit Committee, the Risk Management Committee, the Internal Control Development Project Team and the Audit Department. The Board is responsible for the establishment, improvement, effective implementation and inspection and supervision of the internal control system and conducts full-scale inspection and effectiveness assessment on the Company's internal control on a regular basis. The Audit Committee audits the internal control system of the Company and its implementation and supervises and inspects the internal audit system of the Company and its implementation. The Risk Management Committee is focused on streamlining and regulating internal control activities, as well as information and communication relating to internal control activities. The Internal Control Development Project Team is mainly responsible for promoting internal control development at all businesses, departments, subsidiaries (including branch organizations) and job positions of the Company and reporting the Company's work in internal control development to the Audit Committee of the Company. The Audit Department is mainly responsible for conducting internal control audit of various systems

Internal Control

of the Company (including subsidiaries and other branches), carrying out internal control audit and control tests on a regular basis, reporting internal control audit work to the Audit Committee, Supervisory Committee and management of the Company and exercising supervisory functions.

3. Internal control plan and implementation

The "ZTE 2011 Internal Control Development Plan and Implementation Scheme" formulated by the Company in early 2011 was considered and approved at the Eighth Meeting of the Audit Committee of the Fifth Session of the Board of Directors held on 27 January 2011 and the Sixteenth Meeting of the Fifth Session of the Board of Directors held on 17 March 2011 and was filed with the Shenzhen Bureau of CSRC. Our internal control in 2011 was carried out in three stages: internal control development, self-assessment of internal control and internal control audit. Internal control development included mainly the start-up, process streamlining, self-inspection of internal control and rectification of internal control deficiencies; the stage of self-assessment of internal control mainly involved preparations for assessment, planning and implementation for assessment and the furnishing of self-assessment report; the internal control audit stage was mainly concerned with the appointment of an external audit firm to carry out audit on the Company's internal control and the provision of necessary coordination and support for the audit. As one of the 26 key companies in Shenzhen selected for trial implementation of internal control standards, the Company was required to report the progress of its internal control development to the Shenzhen Bureau of CSRC on weekly, monthly and quarterly bases. The Company was also required to submit the ZTE 2011 Report on Rectifications of Deficiencies in Internal Control Designs, the ZTE Corporation Internal Control Manual and other relevant documents on internal control development to the Shenzhen Bureau of CSRC.

(1) The Company's internal control development in 2011

a. Streamlining of risk types and formulation of risk checklist

The Company conducted detailed analysis of the 18 application guidelines under the Supplementary Guidelines for Corporate Internal Control, tax management and government subsidies in the context of its actual conditions and streamlined risk types in the guidelines, on the basis of which a risk checklist has been formulated to develop control activities corresponding to various risks.

b. Drafting of Process Description

The Company distinguished further sub-processes in respect of the 18 application guidelines under the Supplementary Guidelines for Corporate Internal Control and businesses involving tax management and government subsidies. In the working draft of the "Process Description" of internal control development, mirroring between the corporate system documents and the sub-processes was established to complete process descriptions for the guidelines.

c. Completion of the risk control matrix

On the basis of the sub-process risk checklists, the Company determined corresponding risk-oriented control targets and identified the control officer, control frequency and control type of each specific control activity as well as its impact on relevant recognitions in the financial statements. The risk control matrix constitutes the main body of internal control activity by integrating key control elements such as permission, separation of incompatible duties, evidence and records, access to assets and use of records.

d. Self-inspection of internal control and rectification of deficiencies

The Company acquired walk-through test information as it went through the course of sub-process control activities under the guidelines, so that it could assess the reasonableness of the internal control design. Where design deficiencies were identified in the process of internal control development, plans for the rectification of design deficiencies were proposed with designated responsible departments and officers. Rectifications were completed within stipulated timeframes.

e. Compilation of the internal control manual

The Internal Control Development Project Team compiled the ZTE Corporation Internal Control Manual based on the working drafts of the risk control matrices and process descriptions of various guidelines. Major contents of the Manual include: definitions, scope of processes, process descriptions, risk control matrices and the duties delineation table.

(2) Progress of implementation of internal control development at the Company in 2011

During the first quarter of 2011, an internal control project team was set up and the scope of implementation of internal control development for 2011 was confirmed. The start-up process for internal control development was completed with the convening of a project start-up meeting and a three-day training session specialising in internal control. For details of the implementation during the first quarter, please refer to the section headed "Material Matters" in the 2011 First Quarterly Report of the Company.

During the second quarter of 2011, the Company streamlined its risk classification and compiled a risk checklist. The mirroring relationship between application guidelines and corporate system documents was developed and the responsible departments for various control points were confirmed. Internal control deficiency identification standards were completed and the Company started to carry out self-inspection of internal control. The plan for self-assessment on internal control was also confirmed. For details of the implementation during the second quarter, please refer to the section headed "Material Matters" in the 2011 interim report of the Company.

During the third quarter of 2011, the Company formulated a plan for the rectification of internal control deficiencies and tracked its implementation. Internal control development was extended to cover the "tax management" and "government subsidy" processes. Specialised training on the self-assessment of internal control was organized and completed. Self-assessment of internal control was implemented and the accounting firm for internal control audit was confirmed. For details of the implementation during the third quarter, please refer to the section headed "Material Matters" in the 2011 Third Quarterly Report of the Company.

Progress during the fourth quarter of 2011:

a. Organisation of new processes

Walk-through test information in respect of "tax management" and "financial subsidy" was obtained and the walk-through test was completed. "Risk Control Matrix," the internal control document for the new processes, was amended and fine-tuned according to the test results and finalized.

Internal Control

b, Ongoing improvement and tracking of internal control deficiencies

In the course of internal control development, the Company proposed deficiency rectification plans and designated responsible departments and officers to deal with deficiencies in internal control identified. Such rectifications have been completed within stipulated timeframes. No instances of invalid operation were identified by the internal control project team during the operating effectiveness test conducted on control points after the rectifications.

c. Self-assessment of internal control

The Company was mainly engaged in tracking rectifications of operational deficiencies identified in the first stage of self-assessment on internal control and conducting stage two testing on the rectifications of deficiencies identified in the first stage of self-assessment. Stage two testing will be completed by the end of January 2012.

d. Assisting internal control audit

The Company has appointed an accounting firm to conduct internal control audit, which has started in full scale. The Company facilitated strong coordination and communication to complement the accounting firm in accordance with the internal audit plan to ensure the normal progress of internal control audit.

e. Compilation of the internal control manual

The working drafts of the risk control matrices and process descriptions of various guidelines were optimized, on the basis of which ZTE Corporation Internal Control Manual was compiled. Major contents of the Manual include: definitions, scope of processes, process descriptions, risk control matrices and the duties delineation table.

(3) Progress of the implementation of internal control development versus the original plan

The Company's 2011 internal control tasks were stringently executed in accordance with the schedule set out in the ZTE Internal Control Development Plan and Implementation Scheme 2011 without any deviations.

(II) OPINION ON INTERNAL CONTROL ASSESSMENT

1. The Company's 2011 internal control self-assessment report

The Company has conducted a self-assessment on the effectiveness of the design and operation of its internal control for the year ended 31 December 2011 in accordance with the Basic Rules for Corporate Internal Control, Guidelines for Corporate Internal Control Assessment and the requirements of other pertinent laws and regulations.

The Board of Directors of the Company is of the view that the Company has developed, in respect of businesses and matters within the scope of assessment, an internal control regime that meets the needs of its operational requirements and covers all segments of the Company's operation in effective implementation, and that the Company's internal control objectives have been achieved without any significant deficiencies.

In future period, the Company will continue to adjust and improve the building of its internal control regime, regulate the implementation of its internal control system and strengthen supervision and inspection of its internal controls, in order to facilitate sound and sustainable development.

For details of the Company's internal control, please refer to the 2011 Report of Self-assessment on Internal Control of ZTE Corporation published by the Company on 28 March 2012 as an overseas regulatory announcement.

2. Statement of the Directors of the Company 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. The operation of the internal control regime is effective.

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 2011. The Company's self-assessment on its internal control is in line with the actual conditions.

3. 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 and having reviewed the Company's internal control self-assessment report, the Supervisory Committee is of the view that the self-assessment of the Company's internal control is a true, objective and complete reflection of the status of the Company's internal control, and has no objection to the assessment report on internal control of the Company.

4. 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 2011, 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 taking into account its specific conditions, business development and management requirements.

Internal Control

(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.

5. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the China Code of Ethics for Certified Public Accountants, Ernst & Young Hua Ming conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2011 and furnished an opinion as follows:

Ernst & Young Hua Ming is of the view that ZTE Corporation has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions.

(III) BASIS, IMPROVEMENT AND OPERATION OF THE FINANCIAL REPORTING INTERNAL CONTROL SYSTEM

The Company has formulated a range of administrative systems in connection with financial management, etc in accordance with laws and regulations including the Accounting Law, ASBEs, Basic Rules for Corporate Internal Control and its Supplementary Guidelines and the Shenzhen Stock Exchange Guidelines for Internal Control of Listed Companies, and has effectively implemented and executed such systems in actual operation, and the functions of and delegations in accounting and financial management have been improved and enhanced in terms of rules and regulations. In connection with job positions, staff deployment and key accounting practices, the Company has established an independent accounting department and members of such accounting department have diligently complied with national financial policies and laws and regulations and deal with accounting matters in strict accordance with the Accounting Law, ASBEs and other pertinent regulations.

During the year, the Company did not identify any significant deficiencies in its financial reporting internal control.

(IV) ESTABLISHMENT AND IMPLEMENTATION OF THE SYSTEM OF ACCOUNTABILITY FOR SIGNIFICANT ERRORS IN INFORMATION DISCLOSURE OF ANNUAL REPORTS

The Company has established the ZTE Corporation System of Accountability for Significant Errors in Information Disclosure of Annual Reports in accordance with the Company Law, Securities Law, Accounting Law, Measures for the Administration of Information Disclosure by Listed Companies and other pertinent laws, regulations and regulatory documents, which expressly provides for the identification and handling of significant accounting errors and significant errors in other information disclosures of annual reports, as well as accountability for such significant errors in information disclosures of annual reports. The system was considered and approved at the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010 and became effective on the same date.

The Company has diligently implemented the system. There was no correction of significant accounting errors, remedy of significant omission of information and revision of business projections during the reporting period.

General Meetings of Shareholders

At the 2010 Annual General Meeting of the Company convened on 17 May 2011, the "Financial Statements for the Year Ended 31 December 2010 Audited by the PRC and Hong Kong Auditors," "Report of the Board of Directors of the Company for the Year Ended 31 December 2010," "Report of the Supervisory Committee of the Company for the Year Ended 31 December 2010," "Report of the President of the Company for the Year Ended 31 December 2010," "Final Financial Accounts of the Company for the Year Ended 31 December 2010," "Resolutions on the Proposed Application by the Company for Composite Credit Facilities," "Resolutions on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for the Year Ending 31 December 2011," "Resolution on the Application for Investment Limits in Derivative Products of the Company in 2011," "Resolution on the Company's Investment in, and the Proposed Investment Agreement related to, the Research and Development Base in Yuhuatai District of Nanjing," "Resolutions on Profit Distribution and Capitalisation of Capital Reserves of the Company for 2010," "Resolution of the Company on the General Mandate for 2010," "Resolution of the Company on the Amendment to Relevant Clauses of the Articles of Association" and "Resolution on Matters relating to Debt Financing of ZTE (H.K.) LIMITED" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the 2010 Annual General Meeting of ZTE Corporation" published by the Company on 18 May 2011 at http://www.cninfo.com.cn, China Securities Journal, Securities Times and Shanghai Securities News.

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 2011.

BUSINESS OF THE GROUP

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including carriers' networks, terminals, telecommunications software systems and services and other products.

FINANCIAL RESULTS

Please refer to page 129 and page 277 of this annual report for the results of the Group for the year ended 31 December 2011 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 2011 prepared in accordance with the PRC ASBEs.

Set out on page 19 of this annual report are the results and financial position of the Group for the five financial years ended 31 December 2011 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 2007, 2008, 2009, 2010 and 2011 prepared in accordance with HKFRSs.

(I) Business Review for 2011

Overview of the domestic telecommunications industry

During 2011, the domestic telecommunications industry continued to vigorously advance the construction of 3G and broadband network infrastructure, with a primary focus on accelerating the transformation and upgrade of the industry. Strong efforts were made in the development of the Mobile Internet and value-added telecommunications businesses, as the profile of market competition continued to be optimized and the industry in general maintained stable and sound operation. According to statistics published by the Ministry of Industry and Information Technology, revenue for the domestic telecommunications sector amounted to RMB901.15 billion for the first eleven months of 2011, representing a year-on-year growth of 9.6%.

Overview of the global telecommunications industry

During 2011, investment of the global telecommunications industry in equipment varied from region to region. Emerging nations in the Asia Pacific, CIS and Latin America reported faster growth in investment, while Europe and North America continued to command a larger share of global investments in terms of absolute value. The focus of investment shifted to the construction and optimization of mobile broadband and wireline broadband networks, as 3G network deployment was reaching greater depths while the commercial deployment of 4G was also unfolding. As government-led broadband strategies continued to advance, there was stable growth in the capital expenditure of carriers.

As network traffic grew rapidly in line with the development of the Mobile Internet and the increasingly popular use of smart phone terminals, carriers sought to improve user experience through the optimisation, capacity expansion and upgrade of 2G/3G networks as well as the deployment of 4G networks. Nations around the world were speeding up the implementation of their national broadband strategies to meet public demand for informatisation and high bandwidth. In tandem with the development of mobile broadband and its applications, sales of smart phone terminals were growing at a faster rate to account for an increasing proportion among all terminal products.

Operating Results of the Group for 2011

In 2011, the Group endeavoured to enhance its market position by leveraging its inherent competitive strengths and taking advantage of changes in the competitive landscape. We reported moderately fast growth in revenue from both the domestic market and the international market. Revenue from carriers' networks further increased, while revenue from terminals grew at an accelerated pace and moderately fast growth was noted for telecommunication software systems, services and other products. Nonetheless, gross profit margin and net profit conceded under the impact of the slowdown in global economic growth, adjustments to the monetary policy of the PRC government and the Group's own strategy for expanding market shares. Operating revenue of the Group for 2011 amounted to RMB86.254 billion, representing a year-on-year growth of 23.39%. Net profit attributable to shareholders of parent company decreased 36.62% to RMB2.060 billion. Basic earnings per share amounted to RMB0.61.

By market

The domestic market

During the reporting period, the Group reported operating revenue of RMB39.496 billion from the domestic market, accounting for 45.79% of the Group overall operating revenue and representing a year-on-year growth of 22.67%. The national "12th Five Year Plan" has provided driving force for the further development of the domestic telecommunications industry. Capitalizing on the opportunity of large-scale 3G development in China and national broadband construction, the Group achieved moderately rapid growth in its operating revenue from the domestic market through efforts to support carriers in the improvement of 3G network coverage, deploy broadband access networks and ancillary transmission networks and enhance product competitiveness.

The international market

During the reporting period, the Group reported operating revenue of RMB46.758 billion from the overseas market, accounting for 54.21% of the Group overall operating revenue and representing a year-on-year growth of 24%. Competition was intense in the international telecommunications industry, with increasing conflicts in intellectual property rights. The Group endeavoured to enhance its market position by taking advantage of changes in the competitive landscape, employing various means in vigorous international market development. While reinforcing our position in emerging markets, we continued to make breakthroughs with mainstream global carriers through cooperation with these operators on different products. As a result of these efforts, we sustained relatively fast year-on-year growth in the Group's revenue from international business.

By product

For the reporting period, the Group reported operating revenue of RMB46.522 billion for carriers' networks, representing year-on-year growth of 10.83%. Operating revenue for terminal products amounted to RMB26.933 billion, representing year-on-year growth of 52.63%. Operating revenue for telecommunication software systems, services and other products amounted to RMB12.799 billion, representing year-on-year growth of 24.46%.

Report of the Board of Directors

Carriers' Networks

During the period under review in 2011:

In wireless products, the Group's move to expand its shares in the emerging markets leveraging the strengths of its SDR-based solutions was met with positive response from mainstream global carriers in the form of numerous sub-network construction contracts. All-rounded cooperation with mainstream global carriers has been developed as a result. In the 4G market, while strengthening its cooperation with mainstream global carriers in FDD LTE networks, the Group also seized the opportunity presented by the global deployment of TDD LTE products to develop close partnerships with leading TDD LTE carriers in the PRC, Japan, India and Sweden, etc., where cooperation in large-scale commercial applications or trial commercial applications had been launched.

In connection with wireline products, the Group sustained sound momentum for development with ongoing improvements in product competitiveness and rapid growth in the sales of its access network products in the international market. We completed large-scale sales of our carrying network products in the high-end markets of Europe and the Asia Pacific, complemented by the honours of a second European INFOVISION Award and Frost & Sullivan's "2011 Best Optical Transmission Manufacturer Award".

In connection with service products, the Group responded to demand for customised user requirements by investigating a diverse range of business models, while enhancing its market coverage by developing the industry as well as enterprise segments, complemented by ongoing efforts to improve the competitiveness of its products and solutions.

Terminals

In 2011, the Group reported significant development for its terminal products in tandem with the rapid development of the smart phone terminal market, with rapid growth in supply volumes and rising sales revenue as a percentage of overall revenue. Domestic sales of the Group's 3G smart phone terminals of various modes enjoyed rapid growth as China's 3G services entered a stage of large-scale development. In the international market, the Group has developed partnerships with a majority of mainstream global carriers, while large-scale sales of its terminal products were also reported in leading populous countries such as Brazil and India. Sales of the Group's smart phone terminals were also growing rapidly in the markets of developed countries such as Europe and the United States.

Telecommunications software systems, services and other products

For the reporting period, the Group's telecommunications software systems, services and other products reported year-on-year growth of 24.46%. The services segment, in particular, achieved rapid revenue growth.

(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.

1. 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
I. By industry						
Manufacturing of Communication equipment	86,254.5	60,157.4	30.26%	23.39%	27.09%	(2.03%)
Total	**86,254.5**	**60,157.4**	**30.26%**	**23.39%**	**27.09%**	**(2.03%)**
II. By product						
Carriers' networks	46,522.1	28,305.8	39.16%	10.83%	9.49%	0.75%
Terminal	26,933.5	22,843.8	15.18%	52.63%	59.80%	(3.81%)
Telecommunication software systems, services and other products	12,798.9	9,007.8	29.62%	24.46%	25.35%	(0.50%)
Total	**86,254.5**	**60,157.4**	**30.26%**	**23.39%**	**27.09%**	**(2.03%)**
III. By region						
The PRC	39,496.6	26,271.4	33.48%	22.67%	23.28%	(0.33%)
Asia (excluding the PRC)	15,633.4	11,588.5	25.87%	23.22%	30.05%	(3.90%)
Africa	10,677.5	5,695.7	46.66%	0.36%	(2.97%)	1.84%
Europe, Americas and Oceania	20,447.0	16,601.8	18.81%	42.17%	47.65%	(3.01%)
Total	**86,254.5**	**60,157.4**	**30.26%**	**23.39%**	**27.09%**	**(2.03%)**

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	46,522.1	28,305.8	39.16%
Terminal	26,933.5	22,843.8	15.18%
Telecommunication software systems, services and other products	12,798.9	9,007.8	29.62%

Report of the Board of Directors

3. Breakdown of the Company's assets and liabilities

Unit: RMB in millions

Item	2011 Amount	2011 As a percentage of total assets	2010 Amount	2010 As a percentage of total assets	Year-on-year increase/ decrease
Total assets	**105,368.1**	**100%**	84,152.4	100%	25.21%
Trade receivables	**23,873.4**	**22.66%**	17,563.9	20.87%	35.92%Note 1
Fixed assets	**7,003.8**	**6.65%**	6,523.5	7.75%	7.36%
Long-term equity investment	**514.1**	**0.49%**	918.0	1.09%	(44.00%)Note 2
Construction in progress	**1,580.5**	**1.50%**	1,146.7	1.36%	37.83%Note 3
Short-term loans	**11,183.3**	**10.61%**	6,578.4	7.82%	70.00%Note 4
Inventory	**14,988.4**	**14.22%**	12,103.7	14.38%	23.83%
Long-term loans	**6,940.7**	**6.59%**	1,719.3	2.04%	303.69%Note 5

Note 1: The increase in trade receivables by 35.92% year-on-year was mainly attributable to increased sales and longer payment collection periods.

Note 2: The decrease in long-term equity investment by 44.00% year-on-year was mainly attributable to the reclassification of long-term equity investment in Nationz Technologies to trading financial assets.

Note 3: The increase in construction in progress by 37.83% year-on-year was mainly attributable to the increase in investments in Xi'an R&D Centre and other projects.

Note 4: The increase in short-term loans by 70% year-on-year was mainly attributable to the increase in loans to meet short-term cash flow requirements.

Note 5: The increase in long-term loans by 303.69% year-on-year was mainly attributable to the increase in loans to meet long-term cash flow requirements.

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

Item	As a percentage of total profit 2011	As a percentage of total profit 2010	Year-on-year increase/ decrease
Operating profit	**16.3%**	59.4%	(43.1%)Note 1
Expenses for the period	**919.6%**	446.2%	473.4%Note 2
Investment gains	**40.4%**	11.4%	29.0%Note 3
Non-operating income and expenses, net	**83.7%**	40.6%	43.1%Note 4

Note 1: The decrease in operating profit by 43.1% year-on-year was mainly attributable to lower gross profit and increased expenses.

Note 2: The increase in expenses for the period by 473.4% year-on-year was mainly attributable to the increase in exchange losses arising from exchange rate fluctuations for the period and the increase in interest expense.

Note 3: The increase in investment gains by 29% year-on-year was mainly attributable to investment gains arising from the disposal of Nationz Technologies and to the transfer to investment income of gains on changes in fair value of certain derivative investments upon maturity and settlement during the period.

Note 4: The increase in increase in net non-operating income and expenses by 43.1% year-on-year was mainly attributable to the decrease in compensation payments.

Unit: RMB in millions

Item	2011	2010	Year-on-year increase/decrease
Selling and distribution expenses	**10,953.2**	8,755.0	25.11%
General and administrative expenses	**2,431.7**	2,410.3	0.89%
Finance expenses	**2,356.3**	1,198.5	96.60%[Note 1]
Income tax	**392.0**	883.7	(55.64%)[Note 2]
R&D expenses	**8,492.6**	7,092.0	19.75%

Note 1: The increase in finance cost by 96.6% year-on-year was mainly attributable to the increase in exchange losses arising from exchange rate fluctuations for the period and the increase in interest expense.

Note 2: The decrease in income tax by 55.64% year-on-year was mainly attributable to the decrease in total profit and the increase in deferred tax assets arising from deductible losses.

5. Breakdown of cash flow

Unit: RMB in millions

Item	2011	2010	Year-on-year increase/ decrease
Net cash flow from operating activities	**(1,812.2)**	941.9	(292.40%)[Note 1]
Net cash flow from investing activities	**(3,418.7)**	(3,112.6)	(9.83%)
Net cash flow from financing activities	**11,400.4**	3,037.7	275.30%[Note 2]

Note 1: The decrease in net cash flow from operating activities by 292.40% year-on-year was mainly attributable to the increase in cash paid for the purchase of goods and services and in cash payments to employees.

Note 2: The increase in net cash flow from financing activities by 275.30% year-on-year was mainly attributable to the increase in loans to meet working capital requirements.

Report of the Board of Directors

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:

Unit: RMB million

Name of subsidiary	Registered capital	Percentage of shareholding (%)	Scope of business	Total assets (in RMB millions)	Net assets (in RMB millions)	Revenue from principal operations (in RMB millions)	Profit from principal operations (in RMB millions)	Net profit (in RMB millions)
Shenzhen Zhongxing Software Company, Limited	RMB52.08 million	98%	Software development	16,655.2	6,219.0	11,187.4	9,968.5	3,285.8
ZTE (H.K.) Limited	HK$500 million	100%	General business	20,226.9	1,411.9	13,825.5	2,239.0	234.8
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	RMB50 million	99%	Communications works technology and services	4,813.8	534.7	4,426.2	1,021.2	442.3
Shenzhen ZTE Kangxun Telecom Company Limited	RMB1,950 million	90%	Production of electronic products and related parts	26,738.7	2,372.4	52,850.6	789.2	148.1
ZTEsoft Technology Company Limited	RMB202 million	75%	System work contractor	2,058.9	916.8	792.8	493.2	171.4
Shenzhen Changfei Investment Company, Limited	RMB30 million	51%	Industrial investment	2,985.2	646.9	3,041.1	392.4	153.1
Shenzhen Zhongxing Mobile Technology Company Limited	RMB39.583 million	80%	Production and sale of communications products	2,579.7	586.6	2,906.2	592.1	161.0
Wuxi Zhongxing Optoelectronics Technologies Company Limited	RMB10 million	65%	Development and sales of optoelectronic products	384.0	145.9	233.6	26.3	1.0
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	RMB10 million	51%	Production and sale of communications products	402.1	85.4	389.2	118.5	13.6
Xi'an Zhongxing New Software Company Limited	RMB600 million	100%	Development of software for communications service operations	3,690.7	831.6	2,757.2	1,199.2	319.3
ZTE (Hangzhou) Company Limited	RMB100 million	100%	Manufacturing of communications and related equipment	406.8	174.6	2,871.8	55.8	20.1
Shenzhen Zhongxing ICT Company Limited	RMB30 million	80%	Design and sales of enterprise management hard/software products	357.0	241.2	334.2	250.4	130.9

For the year, the Company recognised investment gains of RMB864.11 million in aggregate in respect of its equity investments in Nationz Technologies. For details, please refer to "(III) Investment in Securities" in "Material Matters." Save as the aforesaid, the Company had not recorded investment gains from equity investments in any other single company for the reporting period that accounted 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 investment" in the notes to the financial report prepared under PRC ASBEs.

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

8. ***Technological innovations***

Proprietary development of new products is and will be a key strategic focus in the Group's development. The Group has been consolidating its research and development platform with increased investments and enhanced parallel development since 2008. From 2009 through 2011, we had been further optimising our systems establishment to strengthen project operation and increase the efficiency of research and development. Such efforts have provided strong assurance for the swift development of the Group's business.

The objective of the Group is to deliver value enhancements to customers, 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's annual investment in technology research and development is equivalent to approximately 10% of its sales revenue and it now has a research and development team with over 30,000 staff. In 2011, the Group continued to advance platform construction and strengthen its capabilities in core technologies. Thanks to the construction and advancement of the SDR Platform, UPP Platform, V4 Platform and ATCA Platform, the development and application of integrated solutions such as multiple wireless network amalgamation, C-RAN, ID Net, Internet of Things, 3 Networks' Integration and Cloud Computing, 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 2011, the Group received the "China Institute of Communications Class I Scientific Technology Award" for its "Technological Innovation and System Application in Large-capacity and Multi-granularity Optical Transmission" project and "R&D Innovation and Large-scale Commercial Application of Broadband Wireless Networks" and the "China Institute of Communications Class II Scientific Technology Award" for its "Breakthrough and Large-scale Commercial Application in 10G EPON Key Technology" project and "Research in Lightning Protection and Ground Connection of Distributive Base Stations."

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 the formation of a regime for cooperation in technological innovation, where the business, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. Leading domestic colleges and research institutes specializing in communications technologies have been solicited to join and the Forum and by far 24 members have enrolled to engage in extensive cooperative projects in communications technologies. Moreover, the Group built more than 10 joint innovation centres with leading global carriers in 2011 to ensure success in the market through better assessment of market demand and customers' experience.

In 2011, the Group undertook to lead 14 major technology research projects designated by the government, including the "new-generation broadband wireless mobile telecom net (Key Project III)" and "core electronic components, high-end general chips and base software products (Key Project I)". We were also charged with the research, development and industrialization of numerous projects including the National 863 Project, the Electronic Development Foundation and the Guangdong-Technology Programme.

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 enabled energy savings of more than 67%. Our emphasis on the building of green networks and the application of environment-friendly technologies

Report of the Board of Directors

was underpinned by our actions to bring the green concept of "energy conservation and discharge reduction" into practice 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 discharge reduction will be realized to the fullest extent.

9. Major suppliers and customers

Purchases by the Group from its largest supplier amounted to RMB5,249 million in 2011, accounting for 10.44% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB10,056 million, accounting for 19.34% 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 2011 to its largest customer amounted to RMB9,376 million, accounting for 10.87% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB29,097 million, accounting for 33.73% of the total sales of the Group for the year; None of the Directors or Supervisors or their associates or any of the shareholders of the Company had any interest in any of the five largest customers of the Group (the above figures of the Group are consistent under PRC ASBEs and HKFRSs).

10. Investments

(1) Use of issue proceeds

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.

(2) Significant investments using funds other than issue proceeds

1. Establishment of 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 that the Company would make a capital contribution of RMB1,000 million (including USD20 million) for the establishment of ZTE Finance Co., Ltd.

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" (銀監覆[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覆》), granting approval to the establishment of a group finance company by the Company. On 11 July 2011, CBRC issued the "Approval Reply of CBRC concerning the Commencement of Business of ZTE Group Finance Co., Ltd" (Yin Jian Fu [2011] No. 236) (《中國銀監會關於中興通訊集團財務有限公司開業的批覆》銀監覆[2011]236號), granting approval to the commencement of business of ZTE Group Finance Co., Ltd.

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," "Announcement on Approval Received for the Establishment of A Group Finance Company" and "Announcement on the Approval of Business Commencement of ZTE Group Finance Co., Ltd" dated 12 October 2010, 30 November 2010 and 15 February 2011, and 13 July 2011, respectively.

2. Investment in a research and development ("R&D") base in Yuhuatai, Nanjing

To facilitate future business development, the Company entered into an investment agreement with Nanjing Yuhuatai District People's Government in respect of the proposed investment in and construction of the "ZTE (Nanjing) Area No. 3 R&D Base" project in Yuhuatai District, Nanjing. The investment was considered and passed at the Sixteenth Meeting of the Fifth Session of the Board of Directors of the Company and the 2010 Annual General Meeting of the Company. Total investment in the project is estimated at RMB16 billion (comprising investment in infrastructure of RMB6 billion). The construction period of the project is expected to be 10 years. The Company will fund investments in the project with its internal resources.

For details, please refer to the "Announcement of External Investment", "Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors" and "Announcement in respect of Resolutions of the 2010 General Meeting" of the Company dated 17 March 2011 and 17 May 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

Report of the Board of Directors

(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	123,365	(125,346)	—	—	95,618
Including: derivative financial assets	123,365	(114,531)	—	—	8,438
2. Available-for-sale financial assets	—	—	—	—	
Sub-total of financial assets	123,365	(125,346)	—	—	95,618
Financial liabilities Note 1	40,139	36,671	(4,120)	—	5,305
Investment properties	—	—	—	—	—
Productive living assets	—	—	—	—	—
Others	—	—	—	—	—
Total	**—**	**(88,675)**	**(4,120)**	**—**	**—**

Note 1: Financial liabilities comprised derivative financial liabilities.

(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 and equity 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 and EUR 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	7,947	888	—	—	8,438
Including: derivative financial assets	7,947	888	—	—	8,438
2. Loans and receivables	16,717,900	—	—	(394,658)	37,049,026
3. Available-for-sale financial assets	47,503	—	—	—	184,974
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	16,773,350	888	—	(394,658)	37,242,438
Financial liabilities	6,360,143	36,671	(4,120)	—	11,818,759

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

15. ***The independent opinion of the Independent Non-executive Directors on the use of funds by connected parties of the Company and the Company's accumulated and current guarantees for 2011 was as follows:***

(1) As at 31 December 2011, 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. Neither the controlling shareholder of the Company nor other connected parties have appropriated the Company's funds or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive 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 2011, guarantees provided by the Company amounted to approximately RMB6,213,090,300 on a cumulative basis, accounting for approximately 25.64% of the Company's audited shareholders' equity attributable to the parent company for 2011. Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries) during the reporting period of 2011 were nil. As at the end of the reporting period of 2011, the balance of third-party guarantees (excluding guarantees on behalf of subsidiaries) amounted to approximately RMB68,902,000, accounting for approximately 0.28% of the Company's audited shareholders' equity attributable to the parent company. During the 2011 reporting period, the actual amount of guarantee provided to subsidiaries incurred was approximately RMB5,670.81 million. The balance of third-party guarantees provided on behalf of subsidiaries as at the end of the reporting period of 2011 amounted to approximately RMB6,163,090,300. For details of the third party guarantees of the Company, please refer to the section headed "Material Matters (XI) 2. Third-party guarantees of the Company". The information on guarantees disclosed in the 2011 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 2011, 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 Non-executive 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 2011, the Board of Directors of the Company convened 9 meetings, the details of which are set out as follows:

Session	Date of meeting	Mode of meeting	Date of announcement on resolutions of meetings	Newspaper and web for publication of announcements
16th Meeting of the Fifth Session	17 March 2011	On-site meeting	18 March 2011	China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn
17th Meeting of the Fifth Session	8 April 2011	Video conference	9 April 2011	
18th Meeting of the Fifth Session	19 April 2011	Video conference	Note 1	
19th Meeting of the Fifth Session	17 May 2011	Voting in written communication	18 May 2011	
20th Meeting of the Fifth Session	8 July 2011	Voting in written communication	9 July 2011	
21st Meeting of the Fifth Session	19 August 2011	Video conference	Note 2	
22nd Meeting of the Fifth Session	30 August 2011	Video conference	31 August 2011	
23rd Meeting of the Fifth Session	27 October 2011	Video conference	28 October 2011	
24th Meeting of the Fifth Session	13 December 2011	Video conference	14 December 2011	

Note 1: The resolution on the "2011 First Quarterly Report of the Company" was considered and approved at the Eighteenth Meeting of the Fifth Session of the Board of Directors of the Company. As it was the only resolution considered at the meeting, it was exempted from announcement as notified by the Shenzhen Stock Exchange. For details of resolution of the Board of Directors, please refer to the "2011 First Quarterly Report of the Company" published by the Company on 20 April 2011.

Note 2: The resolution in respect of the disposal of 51% shares in Congo-Chine was considered and approved at the Twenty-first Meeting of the Fifth Session of the Board of Directors of the Company. It was the only resolution considered at the said meeting. For details of the Board resolutions, please refer to the "Announcement of the Disposal of 51% equity interests in Congo Chine Telecom S.A.R.L." of the Company published on 22 October 2011.

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

1. Pursuant to the relevant resolution passed at the 2010 Annual General Meeting, the Board of Directors of the Company implemented the 2010 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 RMB841 million and the creation of 2 shares for every 10 shares on the basis of 2,804,324,498 shares (being the Company's total share capital of 2,866,731,684 shares as at 31 December 2010 less 62,407,186 restricted shares under the Share Incentive Scheme). The share capital was increased by a total of 573,346,336 shares and the total share capital of the Company after the increase was 3,440,078,020 shares (comprising 2,810,492,575 A shares and 629,585,445 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 Twentieth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 July 2011, that 3,199 Scheme Participants under the First Award of the Phase I Share Incentive Scheme had fulfilled

conditions for the Third Unlocking of Subject Shares under the Phase I Share Incentive Scheme. The Third Unlocking of the Subject Shares granted under the First Award of the Phase I Share Incentive Scheme was completed on 21 July 2011.

At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, it was confirmed that 752 Scheme Participants under the Second 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 Second Award of the Phase I Share Incentive Scheme was completed on 29 December 2011 and a total of 5,230,667 shares were unlocked. For details please refer to "(VI) Progress of the Phase I Share Incentive Scheme of the Company during the Reporting Period" of the section headed "Material Matters" in this annual 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 "Terms of Reference for 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 2011 are set out in the section headed "CORPORATE GOVERNANCE REPORT" in "Corporate Governance Structure" of this annual report

2. Issue of three review opinions on the 2011 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 2011 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.

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 2011 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 2011. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2011 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 in early January 2012 and submitted such timetable to Shenzhen CSRC in early February 2012 in accordance with relevant requirements on annual report auditing announced by Shenzhen CSRC. In accordance with "Guidelines

Report of the Board of Directors

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 2011 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 2011 to March 2012. 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 6 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 2011 financial report and internal control audit 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 the financial reports of 2012, and to re-appoint Ernst & Young Hua Ming as the internal control auditor of the Company for 2012.

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 received the report of the Audit Department on internal audit and internal inspection and testing, reviewed the derivative investments of the Company and made suggestions in respect of risk control in the Company's derivative investments.

(4) Summary report of the Remuneration and Evaluation Committee

1. Details of the work of the Remuneration and Evaluation Committee in 2011 are set out in the section headed "CORPORATE GOVERNANCE REPORT" in "Corporate Governance Structure" 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 2011 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 2011 are set out in the section headed "CORPORATE GOVERNANCE REPORT" in "Corporate Governance Structure" of this annual report.

(6) The statement of the Board of Directors on internal control responsibilities

The Board of Directors the Company is of the view that no significant deficiencies have been identified in the design or implementation of its existing internal control and that the self-assessment of internal control of the Company has reflected the actual conditions of its internal control. The statement of the Board of Directors on internal control responsibilities is set out in the section headed "(II) Opinion on internal control assessment" in "Internal Control" of this Annual Report.

17. Profit distribution or capitalisation of capital reserve

(1) Proposal for profit distribution 2011

Net profit of the Company for the year 2011 calculated in accordance with PRC ASBEs amounted to approximately RMB503,793,000. Together with undistributed profit of approximately RMB1,542,299,000 carried forward at the beginning of the year and after deducting statutory surplus reserves of approximately RMB50,379,000 and profit available for distribution to shareholders amounted to approximately RMB1,995,713,000. Profit of the Company for the year 2011 calculated in accordance with HKFRSs amounted to RMB519,110,000. Together with undistributed profit of RMB1,513,698,000 carried forward at the beginning of the year and after deducting statutory surplus reserves of RMB50,379,000, profit available for distribution to shareholders amounted to RMB1,982,429,000.

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 RMB1,982,429,000. The Board of Directors of the Company has recommended as follows:

Proposed profit distribution for 2011: A cash dividend of RMB2 (including tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,440,078,020 shares as at 31 December 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 2011 profit distribution (the "Record Date"). As at 28 March 2012, 9,125,893 registered Subject Shares under the Share Incentive Scheme remained in lock-up. In accordance with relevant

Report of the Board of Directors

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 2011 profit distribution proposal will be 3,430,952,127 shares, on which basis the 2011 profit distribution plan will be implemented.

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

The 2010 profit distribution and capitalisation of capital reserve plans were implemented on 7 July 2011. For details please refer to the "relevant announcement" published on 30 June 2011 in newspapers and on websites designated for information disclosure.

Aggregate profit distribution of the Company in the form of cash in the past three years accounted for 73.21% of annual average profit available for distribution in the past three years, in compliance with Article 234 of the Articles of Association which states that "Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years."

(3) Profit distribution or capitalisation of capital reserve in the past three years

Year	Policy of profit distribution and capitalisation of capital reserve	Implementation
2010	The profit distribution plan: payment of RMB3 for every 10 shares (before tax) in cash on the basis of 2,804,324,498 shares (being the Company's total share capital of 2,866,731,684 shares as less 62,407,186 restricted shares under the Share Incentive Scheme); The capitalisation of capital reserve: creation of 2 shares for every 10 shares on the basis of the Company's total share capital of 2,866,731,684 shares.	Completed on 7 July 2011
2009	The profit distribution plan: payment of RMB3 for every 10 shares (before tax) in cash on the basis of 1,867,869,027 shares (being the Company's total share capital of 1,911,154,456 shares as less 43,285,429 restricted shares under the Share Incentive Scheme); The capitalisation of capital reserve: creation of 5 shares for every 10 shares on the basis of the Company's total share capital of 1,911,154,456 shares.	Completed on 24 June 2010
2008	The profit distribution plan: payment of RMB3 for every 10 shares (before tax) in cash on the basis of the Company's total share capital of 1,343,330,310 shares; The capitalisation of capital reserve: creation of 3 shares for every 10 shares on the basis of the Company's total share capital of 1,343,330,310 shares.	Completed on 5 June 2009

Details of cash distribution of the Company for the past three years:

Unit: RMB in ten thousands

Year	Cash distribution amount (before tax)	Net profit attributable to shareholders of the listed company in the consolidated statements	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
2010	84,129.73	325,024.70	25.88%	235,499.50
2009	56,036.10	245,812.10	22.80%	264,476.60
2008	40,299.90	166,019.90	24.27%	239,573.40
Accumulated cash distribution in the past three years as a percentage of average annual profit available for distribution (%)				73.21%

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 2012

1. Business outlook for 2012

For 2012, opportunities as well as challenges will abound. Meanwhile, the rapid development of the Mobile Internet will drive the large-scale construction of mobile broadband networks, together with ancillary projects for broadband conversion. The constant demand for improvements in network quality will drive the construction of new 2G/3G networks and the modernization and upgrade of existing ones. As the national broadband strategy continued to advance, the wireline market is set to embrace a new cycle of construction, while ICT sectors such as the Internet of Things, Cloud Computing and the Mobile Internet are on the verge of further transformation. Changes are also being seen in the demand of carriers, in relation to which the provision of integration solutions and the forging of long-term, stable partnerships will be crucial. The Group will go through a critical period of starting cooperation with mainstream global carriers, on the back of its globally competitive products and solutions.

In 2012, we will endeavour to strike a balance between development for the future and present conditions. With ongoing commitment to technological innovations for products, we will shift from the supply of products to the provision of integration solutions. We intend to further consolidate our market position by expanding to the government enterprise and service segments and increasing sales to mainstream carriers, as our strategy of focusing on populous nations and mainstream carriers reaches furthers depths. In the meantime, we will enhance execution of our turn to in-depth operation, taking actions to strengthen cash flow management, optimise process regimes and improve operating efficiency.

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 as a direct result of any fluctuations in the loan interest rates determined by the State and the profitability of the Group will in turn be affected.

(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. Exchange rate volatility has recently escalated under the impact of the international economic situation. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group sought to reduce the Company's net exposure to foreign exchange through the adoption of various measures based on the principle of exposure management. Apart from natural hedging, namely the matching of its assets and liabilities denominated in foreign currencies through the choice of different currencies for various businesses and spot currency trading, foreign currency value preservation through financial derivatives was also carried out.

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(3) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the management of intellectual property rights. We maintain our investment in technology research and development each year at about 10% of our annual sales revenue. Our research and development team is currently supported by over 30,000 employees. While the Group has adopted stringent measures to protect its intellectual property rights, there can be no assurance that there will not be any conflicts in intellectual property rights between the Company and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group.

(4) 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. The Group has stepped up with the building of its international customer credit rating and management system to mitigate the impact of the aforesaid.

(5) Country risk

Given the complex nature of current international economic and political conditions, 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) 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 2011 are set out in note 33 to the financial statements prepared in accordance with HKFRSs.

3. Reserves

Details of the reserves and changes in the reserves of the Company and the Group for the year are set out in note 41 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 39 to the financial statements prepared in accordance with HKFRSs and on page 22 in this annual report.

7. Competing interest

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

8. Taxation

In accordance with the Income Tax Law of the People's Republic of China and its Implementation Regulations, dividend income of individual overseas investors derived from the issue of shares in Hong Kong by non-foreign-invested domestic enterprises is subject to a personal income tax based on "interest, dividend and bonus income" to be withheld and paid by the withholding agent according to the law. The Company will withhold and pay the relevant tax amounts in accordance with the State Administration of Taxation Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No.045 (Guo Shui Han [2011] No.348) (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅征管問題的通知) (國稅函[2011]348號) and the letter titled "Tax arrangements on dividends paid to Hong Kong residents by Mainland companies" of The Stock Exchange of Hong Kong Limited and other pertinent laws and regulations. Shareholders are recommended to consult their tax advisers regarding PRC, Hong Kong and other tax implications arising from their ownership and disposal of H Shares of the Company.

9. 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, 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 diligently implemented relevant provisions of the System of Registration of Owners of Insider Information and conducted training and promotion programmes to educate staff on insider information management and the prevention of insider trading.

In August 2011, all Directors, Supervisors, senior management personnel and employees of key positions who may have access to insider information attended a briefing session to study details of the special conference regarding information disclosure of listed companies of Shenzhen, as required by the "Notice on the Diligent Practice of the Principles of the 'Special Conference Regarding Information Disclosure of Listed Companies of Shenzhen'" issued by the Shenzhen CSRC (Shen Zheng Ju Gong Si Zi [2001] No. 87). These principles were also passed on to the controlling shareholders, firms responsible for the audit of financial reports and other third parties who may have access to the undisclosed information of the Company. In late August 2011, the Company invited its retained PRC legal advisor to give training to all Directors, Supervisors, senior management personnel and employees of key positions who may have access to insider information in respect of "Prevention and Control of Insider Trading." In November 2011, the Company conducted self-inspection of the establishment and implementation the System of Registration of Owners of Insider Information in accordance with requirements stipulated in "Regulations Governing the Establishment of a System of Registration of Owners of Insider Information by Listed Companies" issued by CSRC (Zheng Jian Hui Gong Gao [2011] No. 30) (the "Regulations") and the "Notice on Demanding Further Improvements in Insider Information Management by Listed Companies of Shenzhen" issued by the Shenzhen CSRC (the "Notice"). Our Directors, Supervisors and senior management personnel attended sessions to study the

Report of the Board of Directors

details of the Regulations and the Notice, the relevant requirements of which were also communicated to controlling shareholders, firms responsible for the audit of financial reports and other third parties who may have access to the undisclosed information of the Company. In December 2011, the Legal Department of the Company conducted an on-site training for employees at key positions entitled “Strengthening Insider Information Management of Listed Companies and Prevention of Insider Trading” in accordance with the “Notice on the “12.4” Promotion of Legal Regulations 2011” issued by Shenzhen CSRC.

No instances of owners of insider information trading in the Company’s shares with the benefit of insider information during the reporting period have been identified. Neither the Company nor its relevant personnel had been subject to regulatory measures or administrative punishment as a result of alleged involvement in insider trading.

10. Establishment and implementation of the System for the Administration of External Information Users

The Company has established the ZTE System for the Administration of External Information Users in accordance with relevant provisions of the Company Law, the Securities Law, the Articles of Association and the System of Registration of Owners of Insider Information, making specific stipulations on requirements for the delivery and use of information outside the Company. The System was considered and approved at the Second Meeting of the Fifth Session of the Board of Directors held on 8 April 2010 and became effective on the same date.

11. The Company is not aware of any illicit trading in Company shares by the Directors, Supervisors and senior management personnel during the reporting period

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	2011	2010 (Restated)
Operating revenue:		
Carriers' networks	**46,522.1**	41,976.4
Terminals	**26,933.5**	17,646.4
Telecommunication software systems, services and other products	**12,798.9**	10,283.9
Total revenue	**86,254.5**	69,906.7
Cost of sales	**(62,086.4)**	(48,241.8)
Gross profit	**24,168.1**	21,664.9
Other income and gains	**3,664.4**	2,639.8
Research and development costs	**(8,492.6)**	(7,092.0)
Selling and distribution costs	**(11,112.2)**	(8,890.2)
Administrative expenses	**(2,605.6)**	(2,524.0)
Other expenses	**(1,684.1)**	(753.8)
Profit from operating activities	**3,938.0**	5,044.7
Finance costs	**(1,374.2)**	(728.6)
Share of profit and loss of jointly controlled entities and associates	**71.3**	44.1
Profit before tax	**2,635.1**	4,360.2
Tax	**(392.0)**	(883.7)
Net profit	**2,243.1**	3,476.5
Attributable to:		
Minority interests	**(182.9)**	(226.3)
Attributable to:		
Shareholders of parent company	**2,060.2**	3,250.2
Other comprehensive income	**(350.2)**	41.4
Comprehensive income	**1,892.9**	3,517.9
Dividend	**686.2**	841.3
Earnings per share — Basic	**RMB0.61**	RMB0.98
— Diluted	**RMB0.61**	RMB0.96

Management Discussion and Analysis

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

	2011		2010 (restated)	
Product segment	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	**46,522.1**	**53.9%**	41,976.4	60.0%
Terminals	**26,933.5**	**31.3%**	17,646.4	25.3%
Telecommunication software systems, services and other products	**12,798.9**	**14.8%**	10,283.9	14.7%
Total	**86,254.5**	**100.0%**	69,906.7	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

	2011		2010 (restated)	
Region	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	**39,496.6**	**45.8%**	32,197.5	46.1%
Asia (excluding the PRC)	**15,633.4**	**18.1%**	12,687.9	18.1%
Africa	**10,677.5**	**12.4%**	10,639.0	15.2%
Europe, America and Oceania	**20,447.0**	**23.7%**	14,382.3	20.6%
Total	**86,254.5**	**100.0%**	69,906.7	100.0%

The Group reported RMB86,254.5 million in operating revenue for 2011, a 23.4% growth as compared to last year. Our international business sustained stable growth, with operating revenue growing 24.0% to RMB46,757.9 million. Analysed by product, significant year-on-year growth was reported for carriers' networks, 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 CDMA 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 various terminal products in the domestic as well as overseas markets.

The increase in operating revenue from the Group's telecommunication software systems, services and other products was mainly drive by the increase in sales of fixed terminal products and service income.

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

Product segment	2011 Cost of sales	2011 As a percentage of segment revenue	2010 (restated) Cost of sales	2010 (restated) As a percentage of segment revenue
Carriers' networks	**29,802.1**	**64.1%**	26,623.8	63.4%
Terminals	**22,886.1**	**85.0%**	14,288.8	81.0%
Telecommunication software systems, services and other products	**9,398.2**	**73.4%**	7,329.2	71.3%
Total	**62,086.4**	**72.0%**	48,241.8	69.0%

Unit: RMB in millions

Product segment	2011 Gross profit	2011 Gross profit margin	2010 Gross profit	2010 Gross profit margin
Carriers' networks	**16,720.0**	**35.9%**	15,352.6	36.6%
Terminals	**4,047.4**	**15.0%**	3,357.6	19.0%
Telecommunication software systems, services and other products	**3,400.7**	**26.6%**	2,954.7	28.7%
Total	**24,168.1**	**28.0%**	21,664.9	31.0%

Cost of sales of the Group for 2011 increased 28.7% as compared to last year to RMB62,086.4 million. The Group's overall gross profit margin of 28.0% was 3.0 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 RMB29,802.1 million, an 11.9% increase as compared to last year. Gross profit margin of carriers' networks was 35.9% versus 36.6% for last year. The slight decrease in gross profit margin of carriers' networks mainly reflected the decline of gross profit margin of carriers' networks in the international market offsetting higher gross profit margin for carriers' networks in the domestic market.

Cost of sales for the Group's terminal products amounted to RMB22,886.1 million, increasing by 60.2% as compared to last year. Gross profit margin for the Group's terminal segment was 15.0%, versus 19.0% for last year. The decline in gross profit margin for the terminal segment was attributable mainly to lower gross profit margin for 3G handsets and CDMA handsets in general.

Cost of sales for the Group's telecommunication software systems, services and other products amounted to RMB9,398.2 million, increasing by 28.2% compared to last year. The relevant gross profit margin was 26.6%, compared to 28.7% for last year. The decline in gross profit margin was mainly attributable to lower gross profit margin reported for fixed terminals and video products.

Management Discussion and Analysis

OTHER INCOME AND GAINS

Other income and gains of the Group for 2011 amounted to RMB3,664.4 million, representing a 38.8% growth compared to RMB2,639.8 million for 2010. The increase reflected mainly to the increase in income from software VAT rebate and the recognition of investment gains arising from disposal of Nationz Technologies, Inc..

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2011 increased by 19.7% to RMB8,492.6 million from RMB7,092.0 million for 2010, but decreased slightly from 10.1% in 2010 to 9.8% as a percentage of operating revenue, reflecting mainly increased investments by the Company in the research and development of wireless products, smart phone terminals and service products.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs for 2011 increased by 25.0% to RMB11,112.2 million from RMB8,890.2 million for 2010, or from 12.7% to 12.9% as a percentage of operating revenue, as the Company increased its investments in overseas market development.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2011 increased by 3.2% to RMB2,605.6 million, as compared to RMB2,524.0 million for 2010, but decreased from 3.6% to 3.0% as a percentage of operating revenue, reflecting mainly the Company's strengthened efforts in cost control.

OTHER EXPENSES

Other expenses of the Group for 2011 increased by 123.4% to RMB1,684.1 million, as compared to RMB753.8 million for 2010. The increase mainly reflected exchange losses in 2011 as a result of exchange rate volatility.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2011 decreased by 21.9% to RMB3,938.0 million, as compared to RMB5,044.7 million for 2010, while the operating profit margin decreased from 7.2% for 2010 to 4.6% for 2011, primarily as a result of lower gross profit margin for products and higher other expenses.

FINANCE COSTS

Finance costs of the Group for 2011 increased by 88.6% to RMB1,374.2 million compared to RMB728.6 million for 2010, reflecting mainly the increase in interest expense.

TAX

The Group's income tax expense for 2011 was RMB392.0 million, which was 55.6% lower as compared to RMB883.7 million for 2010, with a lower effective tax rate of 14.9% for 2011, as compared to 20.3% for 2010, mainly as a result of the decrease in total profit and the increase in deferred tax assets arising from deductible losses.

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

The Group's minority interests for 2011 amounted to RMB182.9 million, which was 19.2% lower as compared to RMB226.3 million for 2010. Minority interests increased from 6.5% for 2010 to 8.2% for 2011 as a percentage of net profit before minority interests, reflecting decline in the profit generated by subsidiaries with a higher level of minority interests in a smaller margin than that in the profit generated by the Group.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2011 decreased by 945.9% to RMB-350.2 million, compared to RMB41.4 million for 2010. The decrease in other comprehensive income mainly reflected changes in the translation differences of financial statements denominated in foreign currencies.

CAPITAL MANAGEMENT POLICY

The Group has adopted an appropriate capital management policy, whereby its working capital is mainly financed through its internal resources and bank loans. The Group confirms that sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

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 2011 was 46.3%, increasing by 11.4 percentage points as compared to 34.9% for 2010. The increase was mainly attributable to the increase in the Company's bank loans to replenish working capital.

LIQUIDITY AND CAPITAL RESOURCES

In 2011, 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 contingent cash requirements.

Cash and cash equivalents of the Group as of 31 December 2011 amounted to RMB20,662.1 million.

CASH FLOW DATA

Unit: RMB in millions

	2011	2010
Net cash outflow from operating activities	**(3,655.3)**	227.8
Net cash outflow from investing activities	**(3,610.1)**	(3,649.2)
Net cash inflow from financing activities	**13,434.9**	4,288.5
Net increase in cash and cash equivalents	**6,169.5**	867.1
Cash and cash equivalents at year-end	**20,662.1**	14,905.1

Management Discussion and Analysis

OPERATING ACTIVITIES

The Group had a net cash outflow from operating activities of RMB3,655.3 million for 2011 compared to RMB227.8 million for 2010, reflecting year-on-year increase of cash outflow for purchases of goods and services by RMB12,510.1 million mainly as a result of expanded sales, increase of cash outflow for payments made to and on behalf of employees by RMB3,740.1 million, increase of tax payment by RMB1,173.9 million, increase of other cash payments relating to operating activities by RMB939.4 million, coupled with increase of cash inflow for sales and the provision of services by approximately RMB13,183.7 million and the increase of cash inflow from tax rebates by approximately RMB1,573.1 million.

INVESTING ACTIVITIES

The net cash outflow from the Group's investment activities for 2011 was RMB3,610.1 million compared to a net cash outflow of RMB3,649.2 million for 2010. Cash outflow comprised mainly cash payment of RMB2,548.5 million for the purchase of property, plant and equipment and cash payment of RMB1,516.5 million for the acquisition of intangible assets and land lease payments.

FINANCING ACTIVITIES

The Group's net cash flow from financing activities for 2011 was RMB13,434.9 million, compared to RMB4,288.5 million for 2010, reflecting mainly the net cash inflow of RMB13,427.8 million as additional bank loans borrowed by the Company to finance its operation.

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	2011	2010
Purchases of fixed assets and increase of construction in progress payments	**2,548.5**	1,898.0

The Group's capital expenditure in 2011 amounting to RMB2,548.5 million was mainly used for the completion of construction work at ZTE Industrial Park, Xi'an Research and Development Centre, equipment installation and the purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

	31 December	
Item	2011	2010
Secured bank loans	**2,355.2**	3,597.8
Unsecured bank loan	**16,461.9**	6,022.7

Unit: RMB in millions

Item	31 December 2011	2010
Short-term bank loans	**11,876.4**	7,901.2
Long-term bank loans	**6,940.7**	1,719.3

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 and 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 relatively significant increase in the Group's bank loans in 2011 was mainly attributable to the borrowing of bank loans to provide additional working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

	31 December 2011			
Item	Total	Less than 1 year	2–5 years	More than 5 years
Bank loans	18,817.1	11,876.4	6,940.7	—
Operating lease obligation	1,821.6	359.3	1,163.8	298.5

CONTINGENT LIABILITIES

Unit: RMB in millions

Item	31 December 2011	2010
Guarantees given to banks in connection with borrowings to customers	**65.2**	66.2
Guarantees given to banks in respect of performance bonds	**9,752.6**	7,324.0
Total	**9,817.8**	7,390.2

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December 2011	2010
Land and buildings:		
Contracted, but not provided for	**837.0**	747.5
Investment in associates:		
Contracted, but not provided for	**0.9**	76.2
Land and buildings:		
Authorised, but not contracted	**21,752.0**	14,227.4

Management Discussion and Analysis

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 2011 are set out in notes 19, 20 and 21 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 2011 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 2011 are set out in note 33 to the financial statements prepared under HKFRSs.

PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group's material investments and their performance and prospects as at 31 December 2011 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 "(III) Business outlook and risk exposures for 2012" in the Report of the Board of Directors in this report.

Report of the Supervisory Committee

(1) SUPERVISORY COMMITTEE MEETINGS

The Supervisory Committee held 6 meetings in 2011, the details of which are as follows:

1. The Eighth Meeting of the Fifth session of the Supervisory Committee of the Company was held on 17 March 2011, at which the "2010 Work Report of the Supervisory Committee of the Company," "Full Text of the 2010 Annual Report of the Company," "Summary of the 2010 Annual Report and Results Announcement of the Company," "2010 Financial Report of the Company as Audited by the PRC and Hong Kong Auditors," "2010 Final Financial Accounts of the Company," "Resolution of the Company on the Write-off of Bad Debt for 2010," "Proposed Profit Distribution and Capitalisation of Capital Reserve of the Company for 2010," "Report of the Audit Committee of the Board of Directors on the 2010 Audit of the Company Performed by the PRC and Hong Kong Auditors," "Resolution of the Company on Fixing the Audit Fees of the PRC and Hong Kong Auditors of the Company for 2010," "Resolution on the Appointment of the PRC and Hong Kong Auditors of the Company for 2011," "Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2011" and "2010 Self-assessment Report on Internal Control of the Company" were considered and approved. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://cninfo.com.cn on 18 March 2011.

2. The Ninth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 19 April 2011, at which the "2011 First Quarterly Report of the Company" was reviewed and approved. As it was the only resolution reviewed at the meeting, it was exempted from announcement as notified by the Shenzhen Stock Exchange.

3. The Tenth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 8 July 2011, at which the "Resolution of the Company on the Third 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 Third Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme" were considered and passed. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://cninfo.com.cn on 9 July 2011.

4. The Eleventh Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 30 August 2011, at which the "Full Text and Summary of the 2011 Interim Report and the Results Announcement of the Company," "2011 Interim Final Financial Accounts," "Resolution of the Company on the Write-off of Bad Debt for the Six Months ended 30 June 2011," "Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 31 December 2011," "Resolution on the Revision of the Cap for the Aggregate Amount of Transactions with Connected Parties in 2011," "Resolution of the Company on Continuing Connected Transactions" and "Resolution of the Company on the Continued Purchase of Liability Insurance for Directors, Supervisors and Senior Management" were considered and approved. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://cninfo.com.cn on 31 August 2011.

5. The Twelfth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 27 October 2011, at which the "2011 Third Quarterly Report of the Company," "Resolution of the Company on Continuing Connected Transactions" and "Resolution of the Company on the Appointment of the Internal Control Audit Firm and Fixing the Internal Control Audit Fees for 2011" was considered and approved. An

Report of the Supervisory Committee

announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://cninfo.com.cn on 28 October 2011.

6. The Thirteenth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 13 December 2011, at which the "Resolution of the Company on the Second 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 Second Unlocking of Subject Shares under the Second Award" "Resolutions of the Company on Connected Transactions regarding the Lease of Property" and "Resolution on the Revision of the Cap for the Aggregate Amount of Transactions with Connected Parties in 2011" were considered and passed. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://cninfo.com.cn on 14 December 2011.

(II) OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S AFFAIRS DURING THE REPORTING PERIOD

Having conducted diligent supervision and inspection in relation to matters such as the legal compliance of the Company's operation, the financial conditions of the Company and connected transactions during the reporting period in strict accordance with the provisions of pertinent laws and regulations and the Articles of Association, the Supervisory Committee of the Company does not express any dissent as a result of its supervision over these matters. The Supervisory Committee has furnished its opinion on the state of affairs of the Company in 2011 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 actual state of internal control of the Company. The Supervisory Committee expresses no disagreement to the self-assessment report on internal control of the Company. The opinion of the Supervisory Committee on the self-assessment of the Company's internal control is set out in the section headed "(II) Opinion on internal control assessment" in "Internal Control" of this Annual Report.

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 2011 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 2011 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 2011 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. The Company's disposal of its 51% shares in Congo Chine was in line with the requirements of its strategic development. The equity transfer was legal and effective and the transaction was fair and reasonable. The procedure for considering the matter was in compliance with the requirements of relevant laws and regulations without prejudice to the interest of the Company and its shareholders.

7. 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.

8. The Company has established a "System of Registration of Owners of Insider Information" and has stringently complied with the same. No instances of owners of insider information trading in the Company's shares with the benefit of insider information during the reporting period have been identified.

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 in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 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 to the said consultant firm. Subsequent to the consultant firm's application to the High Court of Delhi in India for the enforcement of the arbitration award on 28 September 2010, the Company filed an objection to the enforcement of the arbitration award on the grounds that the said consultant firm no longer carried the status of a corporate. On 23 September 2011, the High Court of Delhi in India ruled to reject the said consultant firm's application for the enforcement of the arbitration award. It also ruled that the said consultant firm may re-submit its application for the enforcement of the arbitration award after its status of a corporate has been restored.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group 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 of Customs agreed in June 2007 that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of PKR177 million 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 additional tax amount of approximately PKR62 million. The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand.

   On 15 March 2011, Customs Appellate Court of Islamabad ruled that the Pakistanis Subsidiary should not be required to pay the tax amount in dispute of PKR62 million. Currently the judgement has taken effect.

3. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million. 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 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.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group 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 million and damages of RMB11.319 million 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 Division be revoked and a penalty payment for work delay in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division 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's appeal 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 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under 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 million for raw materials and staff deployment. The said cases are currently under trial and negotiation. There was no substantial progress of the case during the reporting period.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the current progress of the cases, the directors of the Company 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 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 its losses, although the amount of such compensation demanded was not specified in the claim by such U.S. company. The Company has appointed a U.S. law firm to represent it in the case and has filed a defense with the court.

   On 13 May 2011, the U.S. company applied to the Californian court for summary judgement in respect of the case. On 14 June 2011, the Californian court issued a summary judgement which ruled that the Company had violated provisions on applicable assessment periods contained in the software click license agreement between the Company and such U.S. company had therefore breached the agreement.

   On 5 August 2011, the U.S. company reached a settlement with the Company. The Company agreed to pay a total of USD9.75 million in settlement and licensing fees to the U.S. company over a period of three years, in consideration of the US company granting the Company the right to use all its commercial software in the next three years. On 5 August 2011, the court ruled to repeal the case in accordance with the law.

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6. A lawsuit on breach of agreement and infringement was instituted by Universal Telephone Exchange, Inc. ("UTE") against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company's attorney filed a written response to the court categorically denying UTE's charges against the Company and ZTE (USA). Meanwhile, the Company's attorney also disputed the jurisdiction of the said court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to such Discovery Request.

   Upon due enquiries, it came to the knowledge of our attorney that UTE's business license in Texas was terminated on 21 May 2010. On this basis, our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated. On 29 March 2011, UTE filed a written response to the dissent of ZTE USA, requesting the court to reject ZTE USA's dissent and rule that UTE had the right to engage in legal actions on the grounds that its business license had been reinstated.

   On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court pending its ruling.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

7. On 7 April 2011, the Company published the "Announcement on Litigation" in relation to the lawsuit filed by Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") against ZTE (UK) LIMITED ("ZTE (UK)"), a wholly-owned subsidiary of the Company, in respect of the alleged infringement on Ericsson's patent technologies by several handset models of ZTE (UK). A demand was made on ZTE (UK) to discontinue such act of infringement and compensate for Ericsson's losses, although no specific amount of compensation was raised by Ericsson in the statement of claim. ZTE (UK) submitted a response on 20 June 2011 and the local court of the U.K. issued a schedule of proceedings on 27 July 2011, confirming that trial of the case will commence in June 2012 at the earliest.

   On 1 April 2011, Ericsson applied to the Court of Rome for provisional injunction procedures against ZTE Italy S.r.l. ("ZTE Italy"), the subsidiary of ZTE in Italy. Such request was rejected by the court on 6 April 2011, which ordered Ericsson to serve a claim on ZTE Italy. The claim was served upon ZTE Italy on 28 April 2011. In response to the aforesaid claim, ZTE Italy submitted its defense to the court in May 2011 and June 2011, requesting the court to reject the litigation claim of the claimant. On 8 July 2011, the Court of Rome officially ruled to reject Ericsson's application for injunction and impounding for investigation against ZTE Italy and further ruled that Ericsson should indemnify ZTE Italy for the latter's legal fees. On 8 August 2011, Ericsson served a statement of appeal upon ZTE Italy. On 3 September 2011, the Court of Rome officially ruled to reject the appeal of Ericsson and further ruled that relevant procedural fees relating to the case should be reimbursed by Ericsson. The ruling was the final and binding verdict in respect of the case of provisional injunction between Ericsson and ZTE Italy.

On 14 April 2011 and 23 May 2011, Ericsson filed lawsuits against ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, with the district court of Dusseldorf and the district court of Mannheim in Germany, respectively, alleging infringement of Ericsson's patent technologies and demanding ZTE Deutschland to discontinue such act of infringement and compensate for Ericsson's losses. The local courts have initially estimated the amount in dispute in this case at EUR10.80 million and EUR2.275 million, respectively.

In February 2012, the Company and Ericsson entered into an AGREEMENT OF DISPUTE RESOLUTION, pursuant to which the two parties agree to withdraw all patent infringement litigations against each other, including all pending patent disputes between the Parties in Germany, the United Kingdom and China. The Company has received rulings of cancellation of the lawsuits from all courts of litigation, including rulings of the local courts of the United Kingdom and Germany for the cancellation of "Ericsson's Case Against ZTE in respect of Patent Infringement" and the ruling of the PRC court for the cancellation of "ZTE's Case Against Ericsson in respect of Patent Infringement."

8. On 28 April 2011, the Company and ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company, received a statement of claim from the High Court of Paris, according to which a lawsuit has been filed by Huawei Technologies Co. Ltd. ("Huawei"), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. Two hearings were held in respect of the case on 12 October and 30 November 2011, respectively, and the Company submitted a defense according to the required timeline to the court. As the Company is no longer selling the products involved in this case, the litigation will not have any substantial impact on the local sales of the Company. In respect of the patent which is the subject of Huawei's litigation and other related patents of the same class, ZTE France has filed a lawsuit with the High Court of Paris to claim the invalidity of the patent, and the case is currently under trial.

   On 9 May 2011, ZTE Deutschland, a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of "labelled data cards" awarded by the District Court of Hamburg, Germany based on an application by Huawei. For details please refer to the "Announcement on Litigation" of the Company dated 12 May 2011. In response to the aforesaid provisional injunction, ZTE Deutschland had filed a dissent with the District Court of Hamburg. On 1 October 2011, the Company received a ruling of the District Court of Hamburg in favor of Huawei's application for the said provisional injunction. On 27 October 2011, ZTE Deutschland appealed to the District High Court of Hamburg and the case is currently pending trial. Such provisional injunction order will not have any impact the current business of the Company. On 27 June 2011, ZTE Deutschland received a statement of claim served by the District Court of Hamburg, Germany, pursuant to which Huawei officially filed a lawsuit of trademark infringement in respect of "labelled data cards" with the court. On 25 July 2011, ZTE Deutschland submitted a defense to the court. On 23 November 2011, the court ruled to suspend the litigation procedure for the case of trademark infringement and to arrange hearing after a judgement has been handed down in respect of the appeal against the provisional injunction.

   On 13 May 2011, Huawei filed a statement of claim with the court of Dusseldorf, Germany against ZTE Deutschland, a wholly-owned subsidiary of the Company, and the Company for infringement of its patent rights. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 9 January 2012, ZTE Deutschland submitted a defense to the court. In respect of the patent which is the subject of Huawei's litigation and other related patents of the same class, ZTE Deutschland filed a lawsuit with the Federal Patent Court of Germany to claim the invalidity of the patent, and the case is currently under trial.

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On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. ("ZTE Hungary"), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of Huawei's litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patent. On 18 January 2012, the court ruled to suspend trial in respect of 1 of the patents under litigation. Court trial has yet to commence for the remaining 3 patents under litigation.

In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of its patent rights or trademarks,Huawei also filed a lawsuit with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court") in 2011 alleging the Company's infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay a compensation. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei's infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay a compensation. As of now, trials of these two domestic cases have yet to commence.

9. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. The legal counsel engaged by the Company has submitted a defense in a timely manner to deny all allegations made by the carrier. Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

10. On 29 July 2011, the Company and ZTE USA, the Company's subsidiary in the United States, received a statement of claim filed by a certain U.S. company, simultaneously with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and its US subsidiary of infringement upon its 3G patent rights. Defendants in this case included other companies. In the ITC case, The said U.S. company demanded the issue of a permanent exclusion order and injunction that would prevent our terminal products from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, in addition to the plea for injunction, although no specific amount of compensation was named. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. There was no substantial progress of the case at the moment.

    Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

11. On 9 December 2011, the Company and ZTE USA, Inc. ("ZTE USA"), its wholly-owned subsidiary, received a petition for arbitration filed by USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised

petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court.

Currently the Company and ZTE USA are actively preparing for defense in the lawsuit. Arbitration of the case has been scheduled for 8 October 2012 at Jacksonville. Florida. As the arbitration procedures of the United States do not provide for any limit on the amount compensation demanded by an applicant, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

The Company will announce any substantial progress of the aforesaid arbitrations and litigations in a timely manner.

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

(III) INVESTMENT IN SECURITIES

1. Securities Investment by the Company at the end of the reporting period.

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the end of the period (10 thousands shares)	Nominal value at the end of the period	Percentage of total investment in securities at the end of the period	Profit and loss in the reporting period
Stock	300077	Nationz Technologies	172.38	312.58	8,718.01	100%	6,468.91
Other investment in securities held at the end of the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	79,942.35
Total			172.38	312.58	8,718.01	100%	86,411.26
Session of the Board approving investment in securities, announcement date and number					N/A		
Session of the Board approving investment in securities, announcement date and number					N/A		

2. Details in investment in securities

Nationz Technologies, the company with our equity investment, issued its shares under initial public offering which was listed on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for listing and circulation as from 3 May 2011. Pursuant to the “Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc.”

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passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies at an appropriate timing and a reasonable price range was approved.

As at the end of the reporting period, the Company disposed of a total of 51,274,200 shares in Nationz Technologies. The Company currently holds 3,125,800 shares in Nationz Technologies (accounting for approximately 1.15% of the total share capital of Nationz Technologies), all of which are unrestricted circulating shares. As the Company no longer exercises significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as trading financial assets for accounting purposes and investment gains and profit/loss from fair-value changes have been measured at fair value.

For details, please refer to the relevant announcements published by the Company on 27 April, 17 May, 30 May, 14 June, 16 June, 23 June, 24 August, 4 November, 11 November, 16 November and 23 November, respectively.

Save as aforesaid, 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) THE HOLDING OF EQUITY INTERESTS IN COMPANIES PROPOSED FOR LISTING OR NON-LISTED FINANCIAL ENTERPRISES)

On 13 December 2011, the IPO application of Shenzhen Jufei Optoelectronics Co., Ltd. 深圳市聚飛光電股份有限公司 (“Jufei”), a company in which the Company held an indirect interest, was approved at the 78th working meeting of 2011 of the ChiNext IPO Vetting Committee of CSRC. For details, please refer to the announcement of the Company dated 14 December 2011. Subsequent to the reporting period, Jufei was listed on the ChiNext of the Shenzhen Stock Exchange on 19 March 2012.

As at 31 December 2011, the Company was the controlling shareholder of Changfei holding a 51% equity interest. Changfei held 12.87 million shares in Jufei, representing 21.62% of the total share capital of Jufei prior to the IPO.

Unit: RMB in ten thousands

Name of investee	Initial investment	Volume held (10,000 shares)	Percentage of equity interest	Book value as at the end of the period	Gain/loss for the reporting period	Change in owner's equity for the reporting period	Accounting classification	Source of shares
Jufei	450	1,287	21.62%	5,690	1,737	1,737	Long-term equity investment	Initial investment
Total	450	1,287	–	5,690	1,737	1,737	–	–

Note: The above data are provided with Changfei as the accounting subject.

(V) THE DISPOSAL OF 51% EQUITY INTERESTS IN CONGO CHINE TELECOM

As part of the requirements for its strategic development, the Company entered into the “Sale and Purchase Agreement” with Atlas Services Belgium, a wholly-owned subsidiary of France Telecom, pursuant to which the Company proposed to sell its 51% equity interests in Congo Chine Telecom (“CCT”) to Atlas Services Belgium, who would transfer its contractual rights and obligations in accordance with the relevant provisions of the Sale and Purchase Agreement to Pan Communication Investment (“PCI”) and Atlas International Investments (“AII”), both of which are wholly-owned subsidiaries of France Telecom.

The disposal by the Company of 51% equity interests in CCT held by the Company to PCI and AII was completed on 21 October 2011 (Beijing time) (the "Completion Date"). Upon the Completion Date, the Company was fully discharged from its obligations under a guarantee provided in connection with CCT.

For details, please refer to the announcements of "The Disposal of 51% equity interests in Congo Chine Telecom S.A.R.L." and "Updates on the Disposal of 51% equity interests in Congo Chine Telecom S.A.R.L." published by the Company on 21 October 2011 and 24 October 2011, respectively.

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of disposal	Transaction price	Net profit contributions to the Company by the disposed assets from the beginning of the year to the date of disposal	Gain/ loss from disposal	Whether a connected transaction	Pricing principle	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Relationship with the counterparty (as applicable to connected transactions)
Atlas Services Belgium	51% shares in Congo-Chine held by the Company	21 October 2011	Note	(4,814.37)	(1,880.1)	No	Based on outcome of valuation	Yes	Yes	N/A

Note: The base price was USD10 million. The final transaction was determined as 51% of the enterprise value less adjustments (sum of EBITDA as at the completion date, EBITDA adjustments for 2010 and 2011 and net debt as at the completion date less capital expenditure) plus an agreed adjustment.

Save as aforesaid, 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 Twentieth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 July 2011, the "Resolution on the Third 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 Third Unlocking of the Subject Shares under the First Award of the Company had been fulfilled and that 3,199 Scheme Participants under the First Award had satisfied conditions for the Third Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 60,532,063 shares. For details, please refer to the "Announcement of Resolutions of the Twentieth Meeting of the Fifth Session of the Board of Directors" published by the Company on 8 July 2011.

On 19 July 2011, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The Third Unlocking of the Subject Shares in the First Award under the Phase I Share Incentive Scheme was completed, with a total of 60,532,063 Subject Shares being unlocked, accounting for 1.76% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 21 July 2011.

At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, the "Resolution on the Second 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 Second Unlocking of

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the Subject Shares under the Second Award of the Company had been fulfilled and that 752 Scheme Participants under the Second 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 5,230,667 shares. For details, please refer to the "Announcement of Resolutions of the Twenty-fourth Meeting of the Fifth Session of the Board of Directors" published by the Company on 13 December 2011.

On 27 December 2011, the Company received a "Reply Slip in Acknowledgment of the Application for Unlocking of Shares under Share Incentive Schemes" issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The Second Unlocking of the Subject Shares in the Second Award under the Phase I Share Incentive Scheme was completed, with a total of 5,230,667 Subject Shares being unlocked, accounting for approximately 0.15% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 29 December 2011.

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) INFORMATION 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).

Four interest payments, each with an aggregate amount of RMB32,000,000, were made in respect of the bond issue on 2 February 2009, 1 February 2010, 31 January 2011 and 30 January 2012 respectively. The maturity of the bonds is 30 January 2013.

The ultimate subscribers were issued 1.63 Warrants in respect of each ZTE Bond cum Warrant 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 2011, 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	4,114,207	10.29%
3	China Life Insurance Company Limited	3,678,666	9.20%
4	Taikang Life Insurance Co., Ltd.	3,655,350	9.14%
5	Haitong-BOC-Fortis Bank	3,046,060	7.62%
6	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06%
7	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34%
8	PICC Health Insurance Company Limited-Universal Life Insurance	1,400,000	3.50%
9	China Pacific Insurance (Group) Co., Ltd.	1,286,327	3.22%
10	Taikang Life Insurance Co., Ltd. — Wan Neng — Wan Neng Personal Insurance	755,900	1.89%

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 75.05% 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. 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. 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. Details of the aforesaid matters have been disclosed in designated newspapers and websites for information disclosure by the Company.

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(VIII) 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 29 March 2012 on the website designated for information disclosure.

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

1. **Significant Connected Transactions of the Group During the year**

(1) Connected transactions under domestic laws and regulations

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.

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 2011 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 Ongoing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange," "Announcement Regarding Connected Transactions,""Announcement Regarding Ongoing Connected Transactions under the Rules Governing Listing of

Stocks on Shenzhen Stock Exchange" published by the Company in China Securities Journal, Securities Times and Shanghai Securities News and http://cninfo.com.cn on 24 October 2008, 28 October 2009, 28 April 2010 and 31 August 2011 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 2011 (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	Zhongxingxin and subsidiaries Shenzhen Zhongxing Xindi, Zhongxing Xinyu, Zhongxing Xinzhou	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.	52,961.91	1.02%	Commercial acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")	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–RMB4,100 per unit, depending on technical parameters and functional features.	27,395.07	0.53%	Commercial acceptance bill	No
Property leasing	ZTE Corporation and subsidiary Chengdu Zhongxing Software Company Limited	Shenzhen Zhongxing Development Company Limited ("Shenzhen Zhongxing Development") (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 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)	4,059.28	7.81%	Tele-transfer	No
		Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development") (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	547.98	1.06%	Tele-transfer	No

At the Twenty-Third Meeting of the Fifth Session of the Board of Directors of the Company held on 27 October 2011, the "Resolution of the Company on Continuing Connected Transactions" was considered and passed, whereby the "2012 Purchase Framework Agreement" proposed to be entered into by ZTE Kangxun, a subsidiary of the Company, and Mobi Antenna, a connected party, in respect of the purchase of products such as various communications antennas and radio frequency modules with the cap of aggregated transaction amounts for 2012 under the framework agreement estimated at RMB600 million (excluding VAT) was approved. For details, please refer to the "Overseas Regulatory Announcement" published by the Company on 27 October 2011.

At the Twenty-Fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, the "Resolution of the Company on a Connected Transaction — Property Lease" was considered and passed, whereby the execution of Property Lease Contract between the Company and Chongqing Zhongxing Development Company Limited (a connected party) for a term of three years from 1 January 2012 to 31 December 2014 in respect of the lease by the Company of the property located at No.3 Xing Guang Wu Road, North New District, Chongqing with a leased area of 20,000 sq.m. at a rental price of RMB45/sq.m. per month and a

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property management fee of RMB2.5/sq.m. per month, subject to an annual rental cap of RMB11.40 million was approved. For details, please refer to the "Continuing Connected Transaction — Tenancy Agreement" published by the Company on 13 December 2011.

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 RMB3,115,050.

(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/or 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 of Revised Annual Cap for the 2011 Lead Purchase Framework Agreement" and "Announcement of Revised Annual Cap for the 2011 Lead Purchase Framework Agreement" published on 27 October 2009, 29 December 2009, 29 November 2010, 30 August 2011 and 13 December 2011, 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. The other substantial shareholder of Ruide is Zhongxing Xindi with an approximately 23% interest. 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 Listing Rules) of Zhongxingxin. As Zhongxingxin is the controlling shareholder 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 Listing Rules.

- Total transaction amount in 2011:

Approximately RMB805,756,970.

- Pricing and other terms:

At the meeting of the Board of Directors held on 26 November 2011, the Directors approved the 2011 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 2011. The annual cap for 2011 was estimated at RMB1,150 million.

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.

- Others

At the Twenty-third Meeting of the Fifth Session of the Board of Directors of the Company held on 27 October 2011, the "Resolution of the Company on Continuing Connected Transactions" was considered and approved, whereby the "2012 Purchase Framework Agreement" proposed to be entered into by the Company and its subsidiaries on the one hand and related party Ruide on the other in respect of the purchase of handset batteries, chargers and data cables LCMs and other products with the cap of aggregated transaction amounts for 2012 estimated at RMB1,200 million (excluding VAT) was approved. For details, please refer to the "Announcement of Continuing Connected Transactions" published by the Company on 27 October 2011.

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. Zhongxingxin is a substantial shareholder of Lead with a 22.5% 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 Listing Rules.

- Total transaction amount in 2011:

Approximately RMB649,509,230.

- Pricing and other terms:

At the meeting of the Board of Directors held on 26 November 2010, the Directors approved the 2011 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 2011. The annual cap for 2011 was estimated at RMB375 million.

As the total amount of the Group's purchase of liquid crystal modules (LCMs) is expected to exceed the approved annual cap for the year ended 31 December 2011 owing to the increase in the sale of handsets by the Group in 2011, the Board has on 30 August 2011 approved the increase of the annual cap for the year ended 31 December 2011 from RMB375 million (excluding VAT) to RMB580 million (excluding VAT) to accommodate the requirements arising from the increase in the sale of handsets by the Group.

As the increase in the sale of smart phone handsets by the Group in the fourth quarter of 2011 is expected to exceed the Group's original estimate for the domestic and overseas market demand of its smart phone handsets, there is a corresponding increase in the purchase of the large-size LCM by the Group from Lead. The Board has approved the Revised Annual Cap increasing from RMB580 million (excluding VAT) to RMB800 million (excluding VAT) on 13 December 2011 for such transaction for the year ending 31 December 2011 in order to accommodate the increase in the purchase of LCM from Lead.

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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 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.

- Others

At the Twenty-third Meeting of the Fifth Session of the Board of Directors of the Company held on 27 October 2011, the "Resolution of the Company on Continuing Connected Transactions" was considered and approved, whereby the "2012 Purchase Framework Agreement" proposed to be entered into by the Company and its subsidiaries on the one hand and related party Lead on the other in respect of the purchase of LCMs and other products with the cap of aggregated transaction amounts for 2012 estimated at RMB1,050 million (excluding VAT) was approved. For details, please refer to the "Announcement of Continuing Connected Transactions" published by the Company on 27 October 2011.

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, 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, 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 70% stake in Zhongxing Xinzhou. Given that Zhongxingxin is a controlling shareholder of the Company, Zhongxing Xinzhou, as an associate of Zhongxingxin, constitutes a connected person of the Company.

- Total transaction amount in 2011:

Approximately RMB534,205,730.

- 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. The annual cap for 2011 was estimated at RMB1,300 million.

- 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.

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d) *For details of the implementation of the Group's connected transactions relating to the lease of properties from Shenzhen Zhongxing Development and Chongqing Zhongxing Development during 2011, 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 Shenzhen Zhongxing Development and Chongqing Zhongxing Development and information of the connected parties, please refer to the "Announcement on Continuing Connected Transactions" and "Continuing Connected Transactions Tenancy Agreements Voluntary Announcement" published by the Company on 27 April 2010 and 13 December 2011.*

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;
- entered into on normal commercial terms; and
- 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;
- conducted in accordance with the pricing policies of the Company (where goods or services are being supplied or rendered by a listed issuer);
- conducted in accordance with the terms of the agreements governing them;
- within the relevant annual caps as disclosed by announcements.

(X) 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.

(XI) 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

(I) 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
Total amount of third-party guarantee approved during the reporting period (A1)			0	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)			RMB68,902,700	Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)				RMB68,902,700

Guarantees provided by the Company 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)
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 2	17 August 2007, 200738	USD105 million	8 November 2007	USD8,405,000	Guarantee by pledge	7.5 years	Yes	No
Closed Joint-Stock Company CJSC TK Mobile Note 3	12 May 2009, 200917	USD70.60 million	N/A	–	Guarantee by pledge	–	No	No
PT. ZTE Indonesia Note 3	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 3	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 4	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 4	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability guarantee		No	No
ZTE (H.K.) Limited Note 5	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability	From 8 July 2011 until the date on which a period of 60 months has lapsed	No	No
ZTE France SASU Note 6	14 December 2011, 201152	EUR10 million	N/A	–	Assurance	From maturity to the date on which performance obligations of ZTE France under "SMS Contract" and "PATES Contract" expire or the termination date (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB5,752,435,000	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)					RMB5,670,810,000
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB6,707,651,400	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)					RMB6,163,090,300

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Total amount guaranteed by the Company (sum of the two categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1)	RMB5,752,435,000	Total amount of guarantee actually incurred during the reporting period (A2+B2)	RMB5,670,810,000
Total amount of guarantee approved as at the end of the reporting period (A3+B3) Note 1	RMB6,757,651,400	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) Note 1	RMB6,213,090,300
Total guaranteed amount as a percentage of net assets of the Company (A4+B4)			25.64%
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)			RMB6,163,090,300
Amount of total guarantee exceeding 50% of net assets (E)			0
Aggregate amount of the three guarantee amounts stated above (C+D+E)			RMB6,163,090,300
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 Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine by pledging its 51% equity interests in Congo-Chine. 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. On 21 October 2011, the Company sold its 51% equity interests in Congo Chine to Pan Communication Investments and Atlas International Investments (both of which are wholly-owned subsidiaries of France Telecom) and the transfer of equity ownership was completed on the same date. The Company was fully discharged from its obligations under a guarantee provided in connection with Congo Chine.

Note 3: 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. 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 4: 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 Indian local bank to the Indian local 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 5: On 8 July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. On 8 July 2011, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in respect of the syndicate loan for ZTE HK. The period of guarantee shall commence on the date on which the guarantee becomes effective and ends on the date which is 60 months after the date of the syndicate loan agreement. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors held on 8 April 2011. As the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company held on 17 May 2011 and was considered and approved.

Note 6: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France, a wholly-owned subsidiary of the Company under the 2010 SMS Service Execution Contract and the PATES-NG Execution Contract. As at the date of this report, the guarantee provided by the Company in respect of the performance obligations of ZTE France has yet to be performed as the relevant agreement has yet to be signed.

Note 7: Being the book exchange rate of the Company as at 31 December 2011. Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1183. Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.3009. Guaranteed amounts denominated in Euro dollars are translated at the exchange rate of EUR1 to RMB 8.1625.

Note 8: 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 Company did not enter into any entrusted investments or entrusted loans.

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

(XII) UNDERTAKINGS

Undertakings	Given by:	Details of undertaking	Performance
Other undertaking (including additional undertakings)	Zhongxingxin	Zhongxingxin, the controlling shareholder of the Company, sold shares in the Company on 13 June 2011 via the securities trading system of Shenzhen Stock Exchange. Zhongxingxin has undertaken that any share disposal by it via the securities trading system during the consecutive six-month period starting from the date of the aforesaid sell-down will be no more than 5% of the total number of shares of the Company.	Zhongxingxin had honoured its undertaking.

(XIII) APPOINTMENT OF AUDITORS

Details are set out in the section headed "VI Auditors' Remuneration" in Part II, of "Corporate Governance Structure" of this annual report.

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(XIV) 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	Shenzhen	March 2011	Teleconference	Analysts and investors	2010 annual report	Published announcements and regular reports
	Hong Kong	March 2011	2010 annual results presentation	Analysts and investors	2010 annual report	Published announcements and regular reports
	Shenzhen	April 2011	Teleconference	Analysts and investors	2011 first quarterly report	Published announcements and regular reports
	Shenzhen	May 2011	Analysts' Forum	Analysts	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	August 2011	Teleconference	Analysts and investors	2011 interim report	Published announcements and regular reports
	Shenzhen	October 2011	Teleconference	Analysts and investors	2011 third quarterly report	Published announcements and regular reports
External meetings	Shanghai	January 2011	UBS investors' meeting	UBS customers	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	January 2011	Deutsche Bank investors' meeting	Deutsche Bank customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	March 2011	Orient Securities investors' meeting	Orient Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2011	China Securities investors' meeting	China Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2011	Morgan Stanley investors' meeting	Morgan Stanley customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2011	Nomura Securities investors' meeting	Nomura Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Sanya	June 2011	Sinolink Securities investors' meeting	Sinolink Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Everbright Securities investors' meeting	Everbright Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	CICC investors' meeting	CICC customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Haitong Securities investors' meeting	Haitong Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	June 2011	Essence Securities interim strategy meeting	Essence Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2011	Orient Securities investors' meeting	Orient Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2011	Galaxy Securities investors' meeting	Galaxy Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Chongqing	June 2011	Changjiang Securities interim strategy meeting	Changjiang Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2011	HSBC Investors' meeting	HSBC Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2011	Essence Securities Investors' meeting	Essence Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2011	Guotai Junan investors' meeting	Guotai Junan customers	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	November 2011	Merrill Lynch investors' meeting	Merrill Lynch customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	November 2011	J.P. Morgan investors' meeting	J.P. Morgan customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	November 2011	Changjiang Securities investors' meeting	Changjiang Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	November 2011	Guotai Junan investors' meeting	Guotai Junan customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2011	Huatai United Securities Investors'meeting	Huatai United Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Xiamen	December 2011	Everbright Securities investors' meeting	Everbright Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hainan	December 2011	CITIC Securities investors' meeting	CITIC Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2011	Essence Securities investors' meeting	Essence Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2011	China Investment Securities Investors'meeting	China Investment Securities customers	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2011	China Merchant Securities Investors'meeting	China Merchant Securities customers	Day-to-day operations of the Company	Published announcements and regular reports

Name	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Company visits by investors	Overseas Investors					
	Company	January — December 2011	Verbal	Samsung Security, Mitsui Sumitomo, Lansdowne, AllianceBernstein, F&C Asset Management, Mitsubishi USA, UBS Asset Management, Mirae Asset Securities, First State Investment Management, Fortress Investment Group, Cathay Life, Matrix Group, AVIVA, UOB, UBS, AMP Capital, JP Morgan Asset Management, ASPOMA Asset Management, JP Morgan, Barclays Capital, Ticonderoga Securities, Cavalry Asset Management, Sumitomo Mitsui AM Co Ltd,, Nissay Asset Management (Tokyo), BNP, CLSA, Taurus Associates, Bluepool Capital, Mizuho Securities, American Century, Sompo Japan, Invesco Perpetual, Mondrian Investment Partners Limited, Pelargos Capital B.V., Nomura AM, Zeal Asset Management, PJ, Putnam, Samsung Asset, Teng Yue Partners, EMIC, Clairvoyance Capital, Tokio Marine Asset Management, Sparx Group, Daiwa-Cathay Capital Markets, Mitsubishi UFJ Investment Services (HK) Limited, Bogan Science Fund, L.P., Sanford C. Bernstein, Ziff Brothers, Resona Bank, Sloanerobinson, APS, CN Investment Division, Lapp Capital, DWS, Credit Suisse, Merrill Lynch, Neuberger Berman, Flowering Tree Investment Management, Principal Global US, BTIG, Discovery Capital Management, Wellington US, Ajia Partners, Guosen Securities, Piper Jefferies, IDG Capital, Genesis Capital, GIC, AXA Framlington, DBS, Jih Sun Securities, ING Investment Management, Value Partners, Passport Capital LLC, Korea Investment Corp	Day-to-day operation of the Company	Published announcements and regular reports
	Domestic Investors					
	Company	January–December 2011	Verbal	CITIC Securities, Chongyang Investment, China Universal Asset Management, Yinhua Fund, Great Wall Fund, UBS SDIC, New China Fund, Lombarda China Fund, China Post Fund, Morgan Stanley Huaxin Funds, China Merchants Fund, United Securities, Nikko Assets, Southern Fund, Shenyin & Wanguo, Guotai Jun'an, Everbright Securities, Invesco Great Wall, Galaxy Securities, Jiashi Funds, Changsheng Fund, CICC, Hua Chuang Securities, Minsheng Securities, China Investment Securities, Taikang Assets, Dacheng Fund, AVIC Securities, Guosen Securities, Manulife Teda Fund, 上海慶華投資發展, Greenwoods Asset Management, Alpha Investment, Boshi Fund, 上海新永溢, Hua An Fund, Solar Insurance Group, First Capital, American International Assurance, BOCI, 建信集團, 新思哲投資, 尚誠投資, Guangfa Fund, Dongwu Investment Fund, 華西資產, Bao Ying Fund, Everbright Pramerica Fund, Changjiang Pension Insurance, Minsheng Royal Fund, Rongtong Fund, Prime Capital Management, Elegant Investment, Industrial Securities, Everbright Securities Group Research, CITIC Securities Group Research, E fund, Huaxia Fund, Everbright Pramerica, China Securities	Day-to-day operation of the Company	Published announcements and regular reports

(XV) 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.

(XVI) SIGNIFICANT ASSET IMPAIRMENT PROVISION

The Company did not make any significant provision for asset impairment in 2011.

Material Matters

(XVII) 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.

(XVIII) DERIVATIVE INVESTMENTS

Principal terms of a derivative investment contract include but not limited to: the source of funds, parties to the contract, investment shares, investment period, product types, whether litigation is involved, whether there are disguised applications of issue proceeds and review of the investment by competent decision making authorities)	In 2011, the Company conducted derivative investment using its internal funds through either ZTE, ZTE Kangxun or ZTE HK. Contract types included fixed income derivatives and value-protection. Fixed income derivatives had an investment term of 1 year or less. Value protection derivatives included USD forwards, Euro forwards and USD interest rate swap. The investment term of USD forwards and Euro forwards was 1 year or less. The investment term of USD interest rate swaps matched the medium- and long-term debts of ZTE (H.K.). The derivative investment quota of 2011 was considered and passed by the Sixteenth meeting of the Fifth session of the Board of Directors and 2010 annual general meeting of the Company. For details, please refer to the "Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors" published by the Company on 17 March 2011 and "Announcement on the Resolutions of the 2010 General Meeting" published by the Company on 17 May 2011. The derivative investments made by the Company have not been involved in litigation or disguised applications of issue proceeds.
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 2011 included fixed income derivatives and value-protection. 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. 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 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 RMB125.53 million, comprising exchange gains of RMB74.84 million, losses from fair-value change of RMB77.86 million and recognized investment gains of RMB128.55 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters 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 Non-executive Directors, sponsors or financial advisors on the Company's derivative investments and risk control

Independent Non-executive 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 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.

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 2
Fixed-income derivative investment	4,473,943	2,705,863	96,131	11.17%
Value-protection derivative investment	1,968,858	2,669,974	29,401	11.02%
Total	6,442,801	5,375,837	125,532	22.19%

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

Note 2: 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.

Material Matters

(XIX) OTHER MATERIAL MATTERS

1. Sell-down shareholders holding more than 30% of the shares in the Company

Zhongxingxin, the controlling shareholder of the Company, sold 48,495,000 A shares in the Company (representing 1.69% of the total share capital of the Company) on 13 June 2011 via the securities trading system of Shenzhen Stock Exchange. Following the sell-down, Zhongxingxin was interested in 881,826,620 shares in the Company, accounting for 30.76% of the total share capital of the Company. For details, please refer to the "Announcement on Sell-down by Shareholders" published by the Company on 13 June 2011.

Zhongxingxin has undertaken that any share disposal by it via the securities trading system during the consecutive six-month period starting from the date of the aforesaid sell-down will be no more than 5% of the total number of shares of the Company. Throughout the reporting period, Zhongxingxin had honoured its undertaking.

2. Execution of syndicate loan agreement

With a view to further optimising the long-term and short-term debt structure the Company and the subsidiaries included in its consolidated financial statements, minimising its exposure to assets and liabilities denominated in foreign currencies and meeting additional working capital requirements of the Company's medium/long-term development at appropriate finance costs, the Company proposes to seek medium/long-term debt financing with ZTE HK, a wholly-owned subsidiary of the Company, as the principal.

On 8 July 2011, ZTE HK (as borrower) entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK (as mandated leading arranger). In view of the current financial conditions and credit rating of ZTE HK, the Company will provide guarantee in relation to the aforesaid debt financing of ZTE HK, in order to secure debt financing at favourable costs. The Company (as guarantor) entered into a guarantee agreement with BOCHK on 8 July 2011 to provide guarantee in favour of the loan syndicate to assure proper fulfillment of payments and all duties of ZTE HK under the syndicate loan agreement. In addition, to avoid interest rate risks associated with the aforesaid debt financing, ZTE HK proposed to carry out an interest rate swap with a nominal amount of not more than USD900 million at an appropriate timing. The aforesaid matters are approved by the Seventeenth Meeting of the Fifth Session of the Board of Directors and the 2010 Annual General Meeting of the Company. For details, please refer to the relevant announcements of the Company dated 8 April 2011, 17 May and 8 July 2011, respectively.

(XX) THERE WERE NO OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE COMPANY AND ITS SUBSIDIARIES DURING THE YEAR THAT REMAINED UNDISCLOSED.

Report of the PRC Auditors

Ernst & Young Hua Ming (2012) Shen Zi No. 60438556_H02

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 2011, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2011 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. 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.

Report of the PRC Auditors (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 2011 and the consolidated and company results of operations and cash flows of ZTE Corporation for the year ended 31 December 2011.

Ernst & Young Hua Ming Chinese

Certified Public Accountant:
Huang Yuedong (黃悅棟)

Beijing, the People's Republic of China

Chinese Certified Public Accountant:
Li Yuxing (黎宇行)

28 March 2012

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	2011	2010
Current assets			
Cash	1	**21,471,967**	15,383,207
Trading financial assets	2	**95,618**	123,365
Bills receivable	3	**3,223,529**	1,289,877
Trade receivables	4	**23,873,425**	17,563,925
Factored trade receivables	4	**3,623,096**	3,016,569
Other receivables	5	**2,118,700**	1,389,783
Prepayments	6	**494,200**	449,664
Inventories	7	**14,988,379**	12,103,670
Amount due from customers for contract works	8	**14,588,455**	14,208,039
Total current assets		**84,477,369**	65,528,099
Non-current assets			
Available-for-sale financial assets	9	**819,972**	342,706
Long-term trade receivables	10	**864,274**	567,444
Factored long-term trade receivables	10	**4,156,083**	4,972,718
Long-term equity investments	12	**514,091**	917,989
Fixed assets	13	**7,003,824**	6,523,505
Construction in progress	14	**1,580,462**	1,146,739
Intangible assets	15	**1,194,946**	891,290
Deferred development costs	15	**1,925,610**	1,466,504
Deferred tax assets	16	**1,128,836**	655,245
Long-term deferred assets		**61,741**	50,032
Other non-current assets	18	**1,640,906**	1,090,086
Total non-current assets		**20,890,745**	18,624,258
TOTAL ASSETS		**105,368,114**	84,152,357

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	2011	2010
Current liabilities			
Short-term loans	19	**11,183,349**	6,578,413
Bank advances on factored trade receivables	4	**3,789,731**	3,016,569
Derivative financial liabilities	20	**5,305**	40,139
Bills payable	21	**11,149,367**	10,056,477
Trade payables	22	**21,542,885**	15,441,206
Amount due to customers for contract works	8	**3,068,804**	2,772,669
Advances from customers	23	**2,458,428**	2,744,694
Salary and welfare payables	24	**2,409,032**	3,097,927
Taxes payable	25	**(990,041)**	(321,345)
Dividends payable	26	**170,046**	136,302
Other payables	27	**7,526,477**	2,976,325
Deferred income		**74,986**	91,256
Provisions	28	**393,343**	260,693
Long-term loans due within one year	29	**693,099**	1,322,817
Total current liabilities		**63,474,811**	48,214,142
Non-current liabilities			
Long-term loans	30	**6,940,702**	1,719,310
Bank advances on factored long-term trade receivables	10	**4,156,083**	4,972,718
Bonds cum warrants	31	**3,884,198**	3,755,790
Deferred tax liabilities	16	**—**	89,167
Other non-current liabilities	32	**623,545**	439,232
Total non-current liabilities		**15,604,528**	10,976,217
Total liabilities		**79,079,339**	59,190,359
Shareholders' equity			
Share capital	33	**3,440,078**	2,866,732
Capital reserves	34	**8,539,807**	9,070,975
Restricted shares subject to lock-up	35	**(40,537)**	(276,266)
Surplus reserves	36	**1,587,891**	1,537,512
Retained profits	37	**10,545,984**	9,222,387
Proposed final dividends	37	**686,190**	841,297
Foreign currency translation differences		**(527,696)**	(168,765)
Total equity attributable to equity holders of the parent		**24,231,717**	23,093,872
Minority interests		**2,057,058**	1,868,126
Total shareholders' equity		**26,288,775**	24,961,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**105,368,114**	84,152,357

The financial statements set out on page 127 to 274 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	2011	2010
			(Restated)
Operating revenue	38	**86,254,456**	69,906,686
Less: Operating costs	38	**60,157,354**	47,335,026
Taxes and surcharges	40	**1,462,901**	791,889
Selling and distribution costs	41	**10,953,233**	8,754,968
Administrative expenses	42	**2,431,703**	2,410,294
Research and development costs		**8,492,623**	7,091,971
Finance expenses	45	**2,356,319**	1,198,477
Impairment losses	46	**946,687**	315,263
Add: Gains/(Losses) from changes in fair values	43	**(88,675)**	83,597
Investment income	44	**1,064,549**	497,163
Including: Share of profits and losses of jointly-controlled entities and associates	44	**71,305**	44,123
Operating profit		**429,510**	2,589,558
Add: Non-operating income	47	**2,368,710**	2,002,149
Less: Non-operating expenses	47	**163,084**	231,506
Including: Loss on disposal of non-current assets		**30,629**	24,094
Total profit		**2,635,136**	4,360,201
Less: Income tax	48	**392,043**	883,719
Net profit		**2,243,093**	3,476,482
Net profit attributable to owners of the parent		**2,060,166**	3,250,247
Minority interests		**182,927**	226,235
Earnings per share	49		
Basic earnings per share		**RMB0.61**	RMB0.98
Diluted earnings per share		**RMB0.61**	RMB0.96
Other comprehensive income	50	**(350,187)**	41,399
Total comprehensive income		**1,892,906**	3,517,881
Including:			
Total comprehensive income attributable to owners of the parent		**1,697,115**	3,301,525
Total comprehensive income attributable to minority interests		**195,791**	216,356

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)

	2011									
	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	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
II. Changes during the year										
(1) Net profit	–	–	–	–	2,060,166	–	–	2,060,166	182,927	2,243,093
(2) Other comprehensive income	–	(4,120)	–	–	–	–	(358,931)	(363,051)	12,864	(350,187)
Total comprehensive income	–	(4,120)	–	–	2,060,166	–	(358,931)	1,697,115	195,791	1,892,906
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	–	4,477	235,729	–	–	–	–	240,206	8,711	248,917
2. Equity settled share expenses charged to equity	–	41,821	–	–	–	–	–	41,821	–	41,821
3. Disposal of subsidiaries	–	–	–	–	–	–	–	–	95,703	95,703
(4) Profit appropriation										
1. Appropriation to surplus reserves	–	–	–	50,379	(50,379)	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(841,297)	–	(841,297)	(111,273)	(952,570)
3. Proposed final dividends	–	–	–	–	(686,190)	686,190	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	573,346	(573,346)	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–	–
III. Current year's closing balance	3,440,078	8,539,807	(40,537)	1,587,891	10,545,984	686,190	(527,696)	24,231,717	2,057,058	26,288,775

	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 Cash Flow Statement

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

		Note V	2011	2010
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**80,967,660**	67,783,927
	Refunds of taxes		**6,315,454**	4,742,338
	Cash received relating to other operating activities	51	**1,507,637**	655,081
	Sub-total of cash inflows		**88,790,751**	73,181,346
	Cash paid for goods and services		**59,892,837**	47,382,746
	Cash paid to and on behalf of employees		**13,418,931**	9,678,857
	Cash paid for all types of taxes		**5,611,652**	4,437,726
	Cash paid relating to other operating activities	51	**11,679,548**	10,740,107
	Sub-total of cash outflows		**90,602,968**	72,239,436
	Net cash flows from operating activities	52	**(1,812,217)**	941,910
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**1,996,248**	—
	Cash received from return on investments		**204,503**	17,001
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**90,615**	29,480
	Sub-total of cash inflows		**2,291,366**	46,481
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**4,065,036**	3,067,164
	Cash paid for acquisition of investments		**1,645,035**	91,902
	Sub-total of cash outflows		**5,710,071**	3,159,066
	Net cash flows from investing activities		**(3,418,705)**	(3,112,585)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**7,137**	3,913,019
	Including: Capital injection into subsidiaries by minority shareholders		**7,137**	716,255
	Cash received from borrowings		**34,945,347**	11,946,153
	Sub-total of cash inflows		**34,952,484**	15,859,172
	Cash repayments of borrowings		**21,517,594**	11,568,474
	Cash payments for distribution of dividends, profits and for interest expenses		**2,034,481**	1,252,949
	Including: Distribution of dividends and profits by subsidiaries to minority shareholders		**62,274**	69,797
	Sub-total of cash outflows		**23,552,075**	12,821,423
	Net cash flows from financing activities		**11,400,409**	3,037,749
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(412,497)**	(37,797)
V.	**Net increase in cash and cash equivalents**		**5,756,990**	829,277
	Add: cash and cash equivalents at beginning of year		**14,905,099**	14,075,822
VI.	**Net balance of cash and cash equivalents**	51	**20,662,089**	14,905,099

Balance Sheet

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

Assets	Note XIII	**2011**	2010
Current assets			
Cash		**13,575,178**	9,690,867
Trading financial assets		**87,180**	23,984
Bills receivable		**2,992,133**	1,199,161
Trade receivables	1	**33,136,024**	24,283,587
Factored trade receivables	1	**3,306,558**	2,864,307
Prepayments		**22,969**	85,559
Dividends receivable		**3,696,751**	27,418
Other receivables	2	**3,477,706**	5,678,250
Inventories		**8,634,564**	5,501,368
Amount due from customers for contract works		**12,171,992**	12,668,254
Total current assets		**81,101,055**	62,022,755
Non-current assets			
Available-for-sale financial assets	3	**212,448**	244,448
Long-term trade receivables	4	**3,633,751**	1,262,311
Factored long-term trade receivables	4	**4,059,772**	5,097,718
Long-term equity investments	5	**4,750,471**	3,515,824
Fixed assets		**4,791,141**	4,253,887
Construction in progress		**739,549**	796,916
Intangible assets		**715,716**	492,918
Deferred development costs		**499,988**	350,767
Deferred tax assets		**622,619**	447,416
Long-term deferred assets		**30,096**	—
Other non-current assets		**1,489,944**	1,090,086
Total non-current assets		**21,545,495**	17,552,291
TOTAL ASSETS		**102,646,550**	79,575,046

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	2011	2010
Current liabilities			
Short-term loans		**6,536,028**	4,165,978
Bank advances on factored trade receivables	1	**3,473,193**	2,864,307
Bills payable		**11,904,593**	9,444,653
Trade payables		**31,997,323**	25,507,206
Amount due to customers for contract works		**2,401,582**	1,703,293
Advances from customers		**1,608,213**	2,110,666
Salary and welfare payables		**720,866**	504,335
Taxes payable		**(1,628,377)**	(948,244)
Dividends payable		**128**	97
Other payables		**20,133,672**	8,030,437
Deferred income		**29,483**	7,805
Provisions		**241,134**	109,493
Long-term loans due within one year		**693,099**	1,087,589
Total current liabilities		**78,110,937**	54,587,615
Non-current liabilities			
Long-term loans		**1,130,090**	728,497
Bank advances on factored long-term trade receivables	4	**4,059,772**	5,097,718
Bonds cum warrants		**3,884,198**	3,755,790
Deferred tax liabilities		**—**	66,048
Other non-current liabilities		**622,297**	439,232
Total non-current liabilities		**9,696,357**	10,087,285
Total liabilities		**87,807,294**	64,674,900
Shareholders' equity			
Share capital		**3,440,078**	2,866,732
Capital reserves		**8,534,677**	9,066,202
Restricted shares subject to lock-up		**(40,537)**	(276,266)
Surplus reserves		**925,674**	875,295
Retained profits		**1,309,523**	1,542,299
Proposed final dividends		**686,190**	841,297
Foreign currency translation differences		**(16,349)**	(15,413)
Total shareholders' equity		**14,839,256**	14,900,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**102,646,550**	79,575,046

Income Statement

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

	Note XIII	2011	2010
Operating revenue	6	**75,344,302**	62,351,362
Less: Operating costs	6	**66,202,307**	53,564,488
Taxes and surcharges		**467,247**	211,891
Selling and distribution costs		**7,703,206**	6,019,425
Administrative expenses		**1,530,847**	1,353,305
Research and development costs		**2,636,883**	1,903,620
Finance expenses		**1,431,951**	1,323,561
Impairment losses		**564,900**	304,305
Add: Gains/(Losses) from changes in fair values		**(34,799)**	23,984
Investment income	7	**5,248,295**	2,188,446
Including: Share of profits and losses of jointly controlled entities and associates	7	**42,247**	20,192
Operating profit		**20,457**	(116,803)
Add: Non-operating income		**419,854**	462,389
Less: Non-operating expenses		**119,701**	146,568
Including: Loss on disposal of non-current assets		**11,842**	10,927
Total profit		**320,610**	199,018
Less: Income tax		**(183,183)**	(124,070)
Net profit		**503,793**	323,088
Other comprehensive income		**(936)**	(600)
Total comprehensive income		**502,857**	322,488

Statement of Changes in Equity

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

2011	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	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146
II. Changes during the year								
(1) Net profit	–	–	–	–	503,793	–	–	503,793
(2) Other comprehensive income	–	–	–	–	–	–	(936)	(936)
Total comprehensive income	–	–	–	–	503,793	–	(936)	502,857
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	–	–	235,729	–	–	–	–	235,729
2. Equity settled share expenses charged to equity	–	41,821	–	–	–	–	–	41,821
3. Others	–	–	–	–	–	–	–	–
(4) Profit appropriation								
1. Appropriation to surplus reserves	–	–	–	50,379	(50,379)	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(841,297)	–	(841,297)
3. Proposed final dividends	–	–	–	–	(686,190)	686,190	–	–
4. Others	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	573,346	(573,346)	–	–	–	–	–	–
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	3,440,078	8,534,677	(40,537)	925,674	1,309,523	686,190	(16,349)	14,839,256

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

Cash Flow Statement

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

		Note XIII	2011	2010
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**72,514,920**	59,832,828
	Refunds of taxes		**4,554,588**	3,465,668
	Cash received relating to other operating activities		**4,116,964**	469,774
	Sub-total of cash inflows		**81,186,472**	63,768,270
	Cash paid for goods and services		**66,899,632**	53,303,110
	Cash paid to and on behalf of employees		**5,027,952**	3,553,560
	Cash paid for all types of taxes		**676,342**	532,350
	Cash paid relating to other operating activities		**6,526,821**	5,636,662
	Sub-total of cash outflows		**79,130,747**	63,025,682
	Net cash flows from operating activities	8	**2,055,725**	742,588
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**1,329,699**	—
	Cash received from return on investments		**124,088**	57,538
	Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net		**86,207**	35,471
	Sub-total of cash inflows		**1,539,994**	93,009
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**2,064,261**	1,987,507
	Cash paid for acquisition of investments		**1,763,675**	806,600
	Sub-total of cash outflows		**3,827,936**	2,794,107
	Net cash flows from investing activities		**(2,287,942)**	(2,701,098)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**—**	3,196,764
	Cash received from borrowings		**14,933,865**	8,823,585
	Sub-total of cash inflows		**14,933,865**	12,020,349
	Cash repayment of borrowings		**8,987,158**	9,177,613
	Cash payments for distribution of dividends, profits and for interest expenses		**1,681,469**	1,128,436
	Sub-total of cash outflows		**10,668,627**	10,306,049
	Net cash flows from financing activities		**4,265,238**	1,714,300
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(261,444)**	(58,861)
V.	**Net increase in cash and cash equivalents**		**3,771,577**	(303,071)
	Add: cash and cash equivalents at beginning of year		**9,505,157**	9,808,228
VI.	**Net balance of cash and cash equivalents**		**13,276,734**	9,505,157

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.

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 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.

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.

The implementation of the Company's 2010 profit distribution and capitalisation of capital reserve was completed on 7 July 2011, whereby 2 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 573,346,336 shares as a result, and the total share capital after the capitalisation was 3,440,078,020 shares.

On 19 July 2011, 3,199 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the third unlocking of Subjects Shares. A total of 60,532,063 A shares were unlocked as Subject Shares. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

On 27 December 2011, 752 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 5,230,667 A shares were unlocked as Subject Shares. 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 2011, the total number of the Company's issued share capital on an accumulative basis was 3,440,078,020 shares. Please refer to Note V.33 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 28 March 2012. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

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

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 2011 and the results of their operations and their cash flows for the year ended 31 December 2011.

3. Financial year

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

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.

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 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 2011. 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 translation differences arising from the settlement and foreign currency monetary items, 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 differences arising from the above translations are recognized in current profit or loss or other comprehensive income according to the nature of foreign currency monetary items.

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.

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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.

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, available-for-sale financial assets and derivatives designated as effective hedging instruments. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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 trading financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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.

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. 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 realized 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

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.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedging against interest rate risks. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

The fair value of financial instruments

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

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.

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 — Longterm 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.

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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% or above of the total original value of all accounts receivable.

(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

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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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

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 intertransactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (except that loss from inter-group transactions deemed as asset impairment loss, which shall be fully 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.

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.24. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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
Freehold land	Indefinite	–	N/A
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.24.

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.24.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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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	3–30 years
Land use rights	50–70 years
Operating concession	3–10 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.

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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.24.

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.

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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 ranted, 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.

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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.

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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.

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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.

As lesser of operating leases

Rental income under operating leases are recognized as profit/loss for the current period on a straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in profit or loss.

Amounts recognized in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. 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.

26. Profit distribution

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

27. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. 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.

29. Significant accounting judgements and estimates

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

Judgements

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. 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 postcontract 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. 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.

Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognized and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Depreciation and amortization

The Group depreciates items of fixed assets and amortises items of intangible 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 and intangible assets.

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 in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognized.

Provision for inventory impairment

The impairment of inventory to its net realizable value is based on the marketability and net realizable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the book value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

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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

2. Tax concession and approval documents

The Company is subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 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 third profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

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 second profitable year.

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III. TAXATION (continued)

2. Tax concession and approval documents (continued)

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 third profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for the current year as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for 2009–2010. It is currently applying for the status of an Important Software Enterprise under the National Planning Layout for 2011.

ZTEsoft Technology Company Limited ("ZTEsoft") is subject to an enterprise income tax rate of 10% for the current year is subject to an enterprise income tax rate of 10% for the current year as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for 2009–2010. It is currently applying for the status of an Important Software Enterprise under the National Planning Layout for 2011.

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen ZTE Mobile Telecom Co., Ltd is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hitech Industrial Park.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

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III. TAXATION (continued)

2. Tax concession and approval documents (continued)

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered 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 fifth profitable year and a 50% reduction in the enterprise income tax rate of 24% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2011 to 2013.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

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 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 2011 to 2013.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 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 2011 to 2013 as a national-grade hi-tech enterprise.

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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	Indirect	Minority interests	Whether statements are consolidated	Minority interests
Subsidiaries acquired by way of incorporation or investment													
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB52.08 million	Software development	75250847-2	RMB51.08 million	–	74%	24%	98%	Yes	37,065
ZTE (H.K) Limited	Hong Kong	Nil	Information technology	HK500 million	General services	Nil	HK500 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%	9%	100%	Yes	5,347
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB1,950 million	Production of electronic products and accessories	279285671	1,755 million	–	90%	–	90%	Yes	237,242
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB202 million	Systems project outsourcing	7453799-0	RMB152 million	–	75%	–	75%	Yes	226,910
Shenzhen Changfei Investment Company Limited	Shenzhen	Peng Ran	Investment	RMB30 million	Industrial investment	75860475-6	RMB15.3 million	–	51%	–	51%	Yes	394,984
Shenzhen ZTE Mobile Telecom Co., Ltd	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB39.583 million	Production and sale of telecommunication products	73205874-2	RMB31.666 million	–	80%	–	80%	Yes	123,059
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10.00 million	Development and sales of opto electronic products	71869554-2	RMB6.50 million	*	65%	–	65%	Yes	51,057
Shanghai Zhongxing Telecom Equipment Technology& Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication service	RMB10.00 million	Production and sale of telecommunication products	7622398-0	RMB5.10 million	–	51%	–	51%	Yes	42,229
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 related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	689089884-1	RMB100 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB30.00 million	Design and sales of corporate management hard/software products	68537795-0	RMB24.00million	–	80%	–	80%	Yes	48,237

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

2. Changes in the scope of consolidation

During 2011, the Group established the following new subsidiaries: tier-one subsidiaries including 深圳市中興供應鏈有限公司, 深圳市百維技術有限公司 and ZTE Group Finance Co. Ltd; tier-two subsidiaries including 衡陽中興網信科技有限公司, Netex Cayman Holdings Co. Ltd (Cayman), 西安中興精誠科技有限公司, 上海市和而泰酒店投資管理有限公司, 南京中興和泰酒店管理有限公司, 深圳市中興物聯科技有限公司, 廈門中興軟創軟件有限公司, ZTE Albania Sh.p.k., ZTE International S.A., 鑫訊國際（香港）有限公司, 西安精誠通訊（香港）有限公司and南京中興移動通信有限公司; and tier-three subsidiaries including ZTE CORPORATION PARAGUAY S.A., Apexvision Limited and ZTE Switzerland AG.

In 2011, the following subsidiaries are not included in the scope of consolidation:

	Disposal Date Net Assets	Beginning of year to disposal date Net Profit
Congo-Chine Telecom S.A.R.L	(195,311)	(94,399)

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

	Place of registration	Nature of business	The Group Percentage of Shareholding in total	The Group Percentage of voting rights in total	Reason for not being a subsidiary
Congo-Chine Telecom S.A.R.L	Congo	Telecommunications	51%	51%	Disposal

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

2. Changes in the scope of consolidation (continued)

The Group entered into an equity transfer agreement with France Telecom on 19 August 2011 for the disposal of its 51% equity interests in Congo-Chine Telecom S.A.R.L (Congo-Chine). The Company received the basic consideration of USD10 million on 21 October 2011, the completion date for the equity disposal. The final transaction price determined on the basis of 51% of the enterprise value of Congo-Chine less adjusted items (the sum of EBITDA on the settlement date, adjusted EBITDA of 2010 and 2011 and net liabilities on the settlement date less capital expenditure) plus an adjustment mutually agreed by both parties. The exact amount of the aforesaid adjustment was to be finalized pending completion of the audit on the 2011 financial statement of Congo-Chine. The Company is of the view that the disposal of Cong-Chine would result in liability of RMB181,418,000, including the repayment of a portion of the consideration for equity interests. As from 21 October 2011, Congo-Chine was deconsolidated from the Group's financial statements. The related financial information of Congo-Chine is set out as follows:

	21 October 2011 Book value	31 December 2010 Book value
Current assets	**125,257**	205,392
Non-current assets	**978,356**	1,107,190
Current liabilities	**(682,560)**	(685,551)
Non-current liabilities	**(616,364)**	(734,912)
	(195,311)	(107,881)
Minority interests	**(95,703)**	(52,862)
Fair value of the remaining equity	**(99,608)**	—
Loss on disposal	**18,801**	—
Disposal consideration	**(118,409)**	—

	Period from 1 January to 21 October 2011
Operating revenue	**451,098**
Operating costs	**295,259**
Net loss	**94,399**

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

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

	Average rate		Year-end rate	
	2011	2010	**2011**	2010
USD	**6.4618**	6.7255	**6.3009**	6.6227
EUR	**8.4845**	9.3018	**8.1625**	8.8065
HKD	**0.8308**	0.8657	**0.8107**	0.8509
GBP	**9.9649**	10.5981	**9.7116**	10.2182
INR	**0.1325**	0.1462	**0.1183**	0.1467
BRL	**3.6734**	3.9340	**3.3821**	3.9647
PKR	**0.0736**	0.0790	**0.0702**	0.0769
IDR	**0.0007**	0.0007	**0.0007**	0.0007
SAR	**1.7231**	1.7929	**1.6804**	1.7658
DZD	**0.0854**	0.0895	**0.0835**	0.0873
JPY	**0.0812**	0.0775	**0.0811**	0.0813
RUB	**0.2068**	0.2213	**0.1966**	0.2169
PLN	**2.0269**	2.2895	**1.8413**	2.2125

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

1. Cash

		2011			2010		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash on hand	RMB	**317**	**1.0000**	**317**	394	1.0000	394
	USD	**1,216**	**6.3009**	**7,662**	1,302	6.6227	8,623
	SAR	**2,461**	**1.6804**	**4,135**	183	1.7658	323
	DZD	**1,844**	**0.0835**	**154**	1,649	0.0873	144
	INR	**1,251**	**0.1183**	**148**	1,316	0.1467	193
	THB	**556**	**0.1996**	**111**	205	0.2193	45
	PLN	**642**	**1.8413**	**1,182**	108	2.2125	239
	KZT	**18,800**	**0.0433**	**814**	11,649	0.0443	516
	EGP	**325**	**1.0476**	**340**	450	1.1345	511
	Others			**1,655**			6,406
	Sub-total			**16,518**			17,394

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

1. Cash (continued)

		2011 Original currency	2011 Exchange rate	2011 RMB equivalent	2010 Original currency	2010 Exchange rate	2010 RMB equivalent
Bank deposit	RMB	11,739,409	1.0000	11,739,409	7,392,454	1.0000	7,392,454
	USD	914,860	6.3009	5,764,441	765,760	6.6227	5,071,402
	HKD	82,444	0.8107	66,837	166,513	0.8509	141,686
	BRL	48,864	3.3821	165,263	21,909	3.9647	86,863
	PKR	882,764	0.0702	61,970	851,053	0.0769	65,446
	EGP	34,974	1.0476	36,639	26,396	1.1345	29,946
	IDR	98,347,143	0.0007	68,843	245,498,571	0.0007	171,849
	EUR	170,939	8.1625	1,395,290	137,026	8.8065	1,206,719
	DZD	591,653	0.0835	49,403	589,737	0.0873	51,484
	MYR	45,623	1.9866	90,635	26,665	2.1467	57,242
	ETB	119,783	0.3694	44,248	97,302	0.3940	38,337
	CAD	7,454	6.1794	46,061	9,125	6.6214	60,420
	GBP	3,037	9.7116	29,494	1,353	10.2182	13,825
	THB	468,597	0.1996	93,532	69,476	0.2193	15,236
	RUB	628,642	0.1966	123,591	95,592	0.2169	20,734
	JPY	2,740,823	0.0811	222,281	624,685	0.0813	50,787
	VEF	37,903	1.4653	55,539	1,416	1.5402	2,181
	COP	22,689,479	0.0033	74,875	1,731,946	0.0033	5,715
	NPR	679,029	0.0756	51,335	326,928	0.0905	29,587
	CLP	7,161,675	0.0121	86,656	1,623,516	0.0140	22,729
	Others			464,229			424,162
	Sub-total			20,730,571			14,958,804

		2011 Original currency	2011 Exchange rate	2011 RMB equivalent	2010 Original currency	2010 Exchange rate	2010 RMB equivalent
Other cash	RMB	523,646	1.0000	523,646	204,128	1.0000	204,128
	USD	31,451	6.3009	198,170	30,479	6.6227	201,853
	Others			3,062			1,028
	Sub-total			724,878			407,009
	Total			21,471,967			15,383,207

As at 31 December 2011, the Group's cash subject to ownership restriction amounted to RMB724,878,000 (31 December 2010: RMB407,009,000), including acceptance bill deposits of RMB380,083,000 (31 December 2010: RMB180,048,000), letter of credit deposits of RMB1,310,000 (31 December 2010: RMB27,220,000), deposit for guarantee letter of RMB78,088,000 (31 December 2010: RMB27,891,000), dues from the People's Bank of China of RMB44,464,000 (31 December 2010: Nil) and risk compensation fund to be released within one year of RMB220,933,000 (31 December 2010: RMB171,850,000).

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

1. Cash (continued)

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 2011, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB1,170,599,000 (31 December 2010: RMB1,261,936,000). Risk compensation fund to be released within one year amounting to RMB220,933,000 (31 December 2010: RMB171,850,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB949,666,000 (31 December 2010: RMB1,090,086,000) was accounted for as other non-current assets.

As at 31 December 2011, the Group's overseas currency deposits amounted to RMB3,547,475,000 (31 December 2010: RMB2,779,314,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB85,000,000 (31 December 2010: RMB71,099,000) were not included in cash and cash equivalents.

2. Trading financial assets

	2011	2010
Financial assets at fair value through profit or loss	**87,180**	—
Derivative financial assets	**8,438**	123,365
	95,618	123,365

Financial assets at fair value through profit or loss are 1.15% of equity held by the Company in Nationz Technologies Inc. ("Nationz Technologies"). Since the Company's intention of holding the equity of Nationz Technologies had changed in the first half of 2011, the sale of the equity in the near term for profit and have no material effect on Nationz Technologies, therefore, the investment in Nationz Technologies was classified from the investment in associates to financial assets at fair value through profit or lose.

Derivative financial instruments represented transactions in forward exchange contracts with reputable banks in the PRC and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the year, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB77,860,000 (2010: gains from fair value changes: RMB83,597,000) was dealt with in current profit or loss.

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

3. Bills receivable

	2011	2010
Commercial acceptance bills	391,943	354,070
Bank acceptance bills	2,831,586	935,807
	3,223,529	1,289,877

As at 31 December 2011, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2010: Nil).

As at 31 December 2011, commercial acceptance bills with a carrying value of RMB78,804,000 were discounted for short-term loans (31 December 2010: RMB339,796,000). As at 31 December 2011, bank acceptance bills with a carrying value of RMB932,165,000 were discounted for short-term loans (31 December 2010: RMB70,400,000). As at 31 December 2011, bank acceptances with a book value of RMB4,410,000 were pledged as security for short term loans (31 December 2010: Nil).

Bills which had been endorsed to other parties but not yet due as at the end of the year amounted to RMB7,052,623,000 (31 December 2010: RMB7,201,309,000).

As at 31 December 2011, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB3,260,000 (31 December 2010: Nil), accounting for 0.1% (31 December 2010: Nil) of the total amount of trade receivables. Please refer to Note VI "The relationships and transactions with related parties".

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.

	2011			2010		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	9,217,277	1.0000	9,217,277	6,242,921	1.0000	6,242,921
USD	1,187,280	6.3009	7,480,933	868,888	6.6227	5,754,385
EUR	273,298	8.1625	2,230,795	216,816	8.8065	1,909,390
BRL	371,333	3.3821	1,255,885	205,260	3.9647	813,794
THB	2,196,521	0.1996	438,426	1,520,414	0.2193	333,427
INR	1,409,785	0.1183	166,778	5,240,361	0.1467	768,761
Others			3,083,331			1,741,247
			23,873,425			17,563,925

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

4. Trade receivables (continued)

Aging analysis of trade receivables was as follows:

	2011	2010
Within 1 year	**22,848,847**	16,810,036
1 to 2 years	**1,791,118**	1,453,857
2 to 3 years	**723,468**	708,457
Over 3 years	**1,110,421**	681,093
	26,473,854	19,653,443
Less: bad debt provision for trade receivables	**2,600,429**	2,089,518
	23,873,425	17,563,925

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

	2011				2010			
	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	**591,722**	**2**	**591,722**	**100**	522,638	3	522,638	100
For which bad debt provision has been collectively made								
0–6 months	**20,303,011**	**77**	**–**	**–**	14,088,727	71	12,513	–
7–12 months	**2,462,395**	**10**	**165,875**	**7**	2,721,309	14	158,268	6
13–18 months	**1,111,816**	**4**	**308,769**	**28**	1,000,057	5	343,247	34
19–24 months	**626,076**	**2**	**255,038**	**41**	453,800	2	232,676	51
2–3 years	**656,806**	**2**	**556,997**	**85**	708,457	4	661,721	93
Over 3 years	**722,028**	**3**	**722,028**	**100**	158,455	1	158,455	100
	25,882,132	**98**	**2,008,707**	**8**	19,130,805	97	1,566,880	8
	26,473,854	**100**	**2,600,429**	**10**	19,653,443	100	2,089,518	11

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

4. Trade receivables (continued)

As at 31 December 2011, 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	269,271	269,271	100%	Debtor running into serious financial difficulties
Overseas carriers 2	162,674	162,674	100%	Debtor running into serious financial difficulties
Overseas carriers 3	65,261	65,261	100%	Debtor running into serious financial difficulties
Others	94,516	94,516	100%	Debtor running into serious financial difficulties
	591,722	591,722		

There was no write-back, write-off or recovery of individually significant trade receivables, or which individual provision for bad debts had been made, in 2011 (2010: Nil).

	2011	2010
Total trade receivables from top five accounts	**10,608,983**	7,508,659
As a percentage of total trade receivables	**40.07%**	38.21%

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group and were aged within 36 months.

As at 31 December 2011, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB114,292,000 (31 December 2010: RMB11,662,000), accounting for 0.43% (31 December 2010: 0.06%) 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". The factored trade receivables was amounting to RMB3,623,096,000 (31 December 2010: RMB3,016,569,000). Bank advances on factored trade receivables amounted to RMB3,789,731,000 (31 December 2010: RMB3,016,569,000).

As at 31 December 2011, trade receivables of the Group with a book value of RMB1,105,174,000 (31 December 2010: RMB2,310,844,000) were subject to ownership restriction as they were pledged as security for short-term loans.

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

5. Other receivables

Aging analysis of other receivables was as follows:

	2011	2010
Within 1 year	1,905,644	1,195,542
1 to 2 years	149,446	172,501
2 to 3 years	42,860	13,522
Over 3 years	20,750	8,218
	2,118,700	1,389,783
Less: bad debt provision for other receivables	—	—
	2,118,700	1,389,783

	2011	2010
Total other receivables from top five accounts	638,327	242,416
As a percentage of total amounts of other receivables	30.13%	17.44%

The above other receivables from top five accounts represent amounts receivable from third parties of the Group and were aged within 36 months.

As at 31 December 2011, there were no other receivables due from shareholders or related parties holding 5% or more in the voting shares (31 December 2010: Nil). Please refer to Note VI "The relationships and transactions with related parties".

6. Prepayments

Aging analysis of prepayments was a follows:

	2011		2010	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	494,200	100%	449,664	100%

	2011	2010
Total prepayments from top five accounts	110,593	71,534
As a percentage of total amounts of prepayments	22.38%	15.91%

As a 31 December 2011, RMB1,519,000 (31 December 2010: RMB2,134,000) 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".

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

7. Inventories

	2011			2010		
		Provision			Provision	
	Book balance	For impairment	Carrying value	Book balance	For impairment	Carrying value
Raw materials	**4,166,509**	**290,318**	**3,876,191**	3,627,397	152,535	3,474,862
Materials under sub-contract processing	**114,311**	**2,943**	**111,368**	106,443	2,408	104,035
Work-in-progress	**1,591,911**	**21,231**	**1,570,680**	1,260,110	7,696	1,252,414
Finished goods	**3,631,475**	**251,603**	**3,379,872**	2,741,856	211,415	2,530,441
Dispatch of goods	**6,558,308**	**508,040**	**6,050,268**	5,084,643	342,725	4,741,918
	16,062,514	**1,074,135**	**14,988,379**	12,820,449	716,779	12,103,670

Please refer to Note V.17 for details of movements in the provision for impairment of inventory during the year.

8. Amount due from/to customers for contract works

	2011	2010
Amount due from customers for contract works	**14,588,455**	14,208,039
Amount due to customers for contract works	**(3,068,804)**	(2,772,669)
	11,519,651	11,435,370
Contract costs incurred plus recognized profits (losses) to date	**42,480,623**	46,715,030
Less: estimated loss	**160,242**	170,973
progress billings	**30,800,730**	35,108,687
	11,519,651	11,435,370

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.

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

9. Available-for-sale financial assets

	2011	2010
Available-for-sale equity instruments	**819,972**	342,706

10. Long-term receivables

	2011	2010
Installment payments for the provision of telecommunication system construction projects	**945,923**	660,873
Less: Bad debt provision for long-term receivables	**81,649**	93,429
	864,274	567,444

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 long-term trade receivables" and "Bank advances on factored long-term trade receivables". The amount as at the end of the year was RMB4,156,083,000 (31 December 2010: RMB4,972,718,000).

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 factored trade receivables agreements. 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 2011, under the above arrangement, trade receivable due from the customer amounted to RMB7,643,736,000 (31 December 2010: RMB7,586,858,000) among which RMB6,114,989,000 (31 December 2010: RMB6,069,486,000) 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 RMB1,528,747,000 (31 December 2010: RMB1,517,372,000) 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 2011 amounted to RMB478,818,000 (31 December 2010: RMB504,380,000), comprising RMB101,759,000 (31 December 2010: RMB112,169,000) due within one year and classified as other payables (see Note V.27) and RMB377,059,000 (31 December 2010: RMB392,211,000) due after one year and classified as other non-current liabilities (see Note V.32).

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

11. Investments in jointly-controlled entities and associates

2011

	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	Information technology	CYP600,000	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
Associates						
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000	78924272-7
KAZNURTEL Limited Liability Co.	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
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
Shenzhen Jufei Optoelectronics Co., Ltd.	Company Limited by shares	China	Xing Qibin	Machinery equipment	RMB59,540,000	7787106-0
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
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
思卓中興(杭州)科技有限公司	Company with limited liability	China	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
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
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computers applications	RMB1,800,000	61869998-4
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
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000	77585307-6
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	Communications industry and related businesses	RMB3,000,000	56310423-3
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer Application Services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	China	Zhang Dazhong	Advertisements, internet, communications, imports and exports	RMB5,000,000	58213499-9
深圳市遠行科技有限公司	Company with limited liability	China	Wu Yihai	Computer Application Services	RMB10,000,000	77030180-3
Telecom Innovations	Company with limited liability	Uzbekistan	Aliev F.A	Sales and production of communications equipment	USD 2,875,347.3	Nil

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

11. Investments in jointly-controlled entities and associates (continued)

2011 (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	—	—
普興移動通訊設備有限公司	300,698	267,427	33,271	436,677	881
Associates					
Shenzhen Zhongxing Xinyu FPC Company Limited	238,471	182,359	56,112	187,382	18,899
Shenzhen Fudekang Electronics Company Limited	64,872	52,174	12,698	147,084	2,892
KAZNURTEL Limited Liability Co.	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	185,006	140,986	44,020	323,994	6,653
Shenzhen Weigao Semiconductor Company Limited	49,616	36,469	13,147	54,705	1,490
Shenzhen Decang Technology Company Limited	241,022	172,193	68,829	347,756	6,554
Shenzhen Jufei Optoelectronics Co., Ltd.	396,696	133,525	263,171	346,910	80,356
Shenzhen Smart Electronics Company Limited	56,644	30,599	26,045	109,920	(5,083)
北京中鼎盛安科技有限公司	708	115	593	750	(262)
思卓中興(杭州)科技有限公司	40,509	202	40,307	—	(3,994)
上海泰捷通信技術有限公司	54,566	37,438	17,128	54,862	4,120
上海中興群力信息科技有限公司	67,052	16,522	50,530	14,631	23,680
Zhongxing Energy Company Limited	2,474,601	930,848	1,543,753	104,292	111,204
ZTE Software Technology (Nanchang) Company Limited	47,755	113,871	(66,116)	24,955	(2,996)
廣州市鴻昌隆實業有限公司	6,668	5,307	1,361	11,581	127
深圳市偉文電氣有限公司	993	622	371	—	—
上海與德通訊技術有限公司	5,732	4,030	1,702	19,139	(479)
Nanjing Piaoxun Network Technology Company Limited	152	3	149	112	(381)
上海歡流傳媒有限公司	3,378	11	3,367	—	(313)
深圳市遠行科技有限公司	18,420	4,662	13,758	54,121	40,421
Telecom Innovations	36,682	10,222	26,460	16,907	4,406

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

11. Investments in jointly-controlled entities and associates (continued)

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	Information technology	CYP600,000	Nil
Associates						
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000	78924272-7
Nationz Technologies Inc.	Company Limited by shares	China	Liu Jinping	Manufacturing of computers and related equipment	RMB108,800,000	71528448-1
KAZNURTEL Limited Liability Co.	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	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
Shenzhen Jufei Optoelectronics Co., Ltd.	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	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	Manufacturing of computers and related equipment	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 computers 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

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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 Co.	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
Shenzhen Jufei Optoelectronics Co., Ltd.	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)

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

12. Long-term equity investments

		2011	2010
Equity method			
Jointly-controlled entities	(1)	**46,195**	2,255
Associates	(2)	**467,896**	915,734
		514,091	917,989

2011

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease 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%	–
普興移動通訊設備有限公司*	43,500	–	43,940	43,940	33.85%	50.00%	–
		2,255	43,940	46,195			–

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

12. Long-term equity investments (continued)

2011 (continued)

(2) *Associates*

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Co.	3,988	2,477	–	2,477	49.00%	49.00%	–
ZTE Software Technology (Nanchang) Company Limited**	4,500	–	–	–	30.00%	30.00%	–
Nationz Technologies Inc.	31,559	540,495	(540,495)	–	1.15%	1.15%	10,880
Zhongxing Energy Company Limited	300,000	261,922	25,866	287,787	23.26%	23.26%	–
思卓中興(杭州)科技有限公司	22,845	2,314	17,545	19,859	49.00%	49.00%	–
Wuxi Kaier Technology Company Limited	7,922	12,375	7,259	19,635	42.64%	42.64%	–
Shenzhen Weigao Semiconductor Company Limited	4,000	4,663	596	5,259	40.00%	40.00%	–
Shenzhen Zhongxing Xinyu FPC Company Limited	5,000	9,957	2,795	12,752	22.73%	22.73%	1,500
Shenzhen Smart Electronics Company Limited	7,051	9,338	(1,525)	7,813	30.00%	30.00%	–
Shenzhen Jufei Optoelectronics Co., Ltd.	4,500	39,524	17,373	56,897	21.62%	21.62%	–
Shenzhen Fudekang Electronics Company Limited	1,800	2,942	867	3,809	30.00%	30.00%	–
Shenzhen Decang Technology Company Limited	750	18,683	1,966	20,649	30.00%	30.00%	–
北京中鼎盛安科技有限公司	1,960	779	(128)	651	49.00%	49.00%	–
上海泰捷通信技術有限公司	4,000	5,203	1,648	6,851	40.00%	40.00%	–
上海中興群力信息科技有限公司	2,000	1,967	9,472	11,439	40.00%	40.00%	–
深圳市偉文電氣有限公司	175	130	–	130	35.00%	35.00%	–
廣州市鴻昌隆實業有限公司	432	432	45	477	35.00%	35.00%	–
上海與德通訊技術有限公司	2,000	2,000	(96)	1,904	20.00%	20.00%	–
Nanjing Piaoxun Network Technology Company Limited*	533	533	(76)	457	61.00%	20.00%	–
上海歡流傳媒有限公司	1,650	–	1,547	1,547	33.00%	33.00%	–
深圳市遠行科技有限公司	1,850	–	3,421	3,421	25.00%	25.00%	–
Telecom Innovations	4,082	–	4,082	4,082	22.70%	22.70%	–
		915,734	(447,838)	467,896			12,380

* The shareholding percentages of the Group's interests in 普興移動通訊設備有限公司 and Nanjing Piaoxun Network Technology Company Limited were inconsistent with the proportions of its voting rights in the investees, as the proportions of voting rights had been stipulated in the respective articles of association of these companies.

** 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 RMB899,000 (2010: RMB357,000) and RMB19,835,000 (2010: RMB18,936,000).

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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	Increase/ decrease 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	Increase/ decrease 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 Co.	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%	–
Shenzhen Jufei Optoelectronics Co., Ltd.	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
上海泰捷通信技術有限公司	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

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

13. Fixed Assets

2011

	Opening balance	Increase during the year	Decrease during the year	Exchange rate adjustments	Closing balance
Cost					
Buildings	3,836,137	623,004	(104,332)	(8,066)	4,346,743
Freehold land	—	96,010	—	(17,067)	78,943
Electronic equipment	2,908,652	852,372	(393,963)	(23,340)	3,343,721
Machinery equipment	2,739,926	469,732	(761,898)	(74,922)	2,372,838
Vehicles	354,919	57,184	(54,049)	(4,418)	353,636
Other equipment	139,668	82,446	(6,872)	(10,125)	205,117
	9,979,302	2,180,748	(1,321,114)	(137,938)	10,700,998
Accumulated depreciation					
Buildings	469,203	152,785	(64,538)	(2,926)	554,524
Freehold land	—	—	—	—	—
Electronic equipment	1,544,362	495,769	(299,301)	(10,581)	1,730,249
Machinery equipment	1,246,411	276,051	(312,703)	(28,531)	1,181,228
Vehicles	150,096	34,456	(36,364)	(2,131)	146,057
Other equipment	45,725	49,569	(5,976)	(4,202)	85,116
	3,455,797	1,008,630	(718,882)	(48,371)	3,697,174
Net book value					
Buildings	3,366,934	470,219	(39,794)	(5,140)	3,792,219
Freehold land	—	96,010	—	(17,067)	78,943
Electronic equipment	1,364,290	356,603	(94,662)	(12,759)	1,613,472
Machinery equipment	1,493,515	193,681	(449,195)	(46,391)	1,191,610
Vehicles	204,823	22,728	(17,685)	(2,287)	207,579
Other equipment	93,943	32,877	(896)	(5,923)	120,001
	6,523,505	1,172,118	(602,232)	(89,567)	7,003,824

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13. Fixed Assets (continued)

2010

	Opening balance	Increase during the year	Decrease 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

Depreciation for 2011 amounted to RMB1,008,630,000 (2010: RMB859,538,000). In 2011, transfer from construction in progress to fixed assets amounted to RMB867,055,000 (2010: RMB1,628,764,000) at cost.

As at 31 December 2011, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2010: Nil). Houses and buildings with a book value of RMB6,800,000 (31 December 2010: RMB3,916,000) were under ownership restriction as they had been pledged as security for borrowings. As at 31 December 2011, machinery and equipment with a book value of RMB91,395,000 (31 December 2010: RMB370,285,000) was under ownership restriction as they had been pledged as security for borrowings.

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

13. Fixed Assets (continued)

As at 31 December 2011, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2010: Nil).

As at 31 December 2011, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an and Hefei in China with a net book value of approximately RMB3,073,017,000 (31 December 2010: RMB2,563,359,000).

14. Construction in progress

2011

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Closing balance	Source of funds	Project completion (%)/ progress
Liuxiandong ZTE Industrial Park Phase I	1,000,000	70,152	731	(70,883)	–	Internal resources	100%
Nanjing R&D Centre	Nil	42,193	5,837	(47,300)	730	Internal resources	
Shanghai R&D Centre Phase II	Nil	23,808	–	(23,049)	759	Internal resources	
Xi'an Technology Park Phase II	Nil	4,571	–	(4,571)	–	Internal resources	
Staff quarters	Nil	623,928	339,260	(349,703)	613,485	Internal resources	
Sanya R&D Base Project	Nil	1,123	918	–	2,041	Internal resources	
Equipment installation	Nil	62,868	176,395	(103,880)	135,383	Internal resources	
Xi'an District 2 Phase I	Nil	21,408	483,148	–	504,556	Internal resources	
Xi'an Technology Park Site A10	Nil	80,894	147,171	(52,302)	175,763	Internal resources	
Technology Park C3 R&D Centre	Nil	38,362	82,017	–	120,379	Internal resources	
Heyuan R&D training Center Phase I	Nil	–	87	–	87	Internal resources	
Industrial Park North Phase II	Nil	–	94	–	94	Internal resources	
Others	Nil	177,432	65,120	(215,367)	27,185	Internal resources	
Total:		1,146,739	1,300,778	(867,055)	1,580,462		

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

14. Construction in progress (continued)

2010

	Budget	Opening balance	Increase during the period	Transfer 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 Centre 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 Project	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		

As at 31 December 2011, there was no capitalized interest in the balance of the construction in progress (31 December 2010: Nil).

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

15. Intangible assets

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Cost				
Software	389,217	52,509	(54,189)	387,537
Technology know-how	7,184	–	(200)	6,984
Land use right	827,574	124,583	(1,922)	950,235
Operating concessions	94,157	296,966	(55,633)	335,490
	1,318,132	474,058	(111,944)	1,680,246
Accumulated amortization				
Software	308,508	31,967	(52,042)	288,433
Technology know-how	4,004	491	(60)	4,435
Land use right	46,022	16,983	–	63,005
Operating concessions	61,986	89,199	(28,080)	123,105
	420,520	138,640	(80,182)	478,978
Net book value				
Software	80,709	20,542	(2,147)	99,104
Technology know-how	3,180	(491)	(140)	2,549
Land use right	781,552	107,600	(1,922)	887,230
Operating concessions	32,171	207,767	(27,553)	212,385
	897,612	335,418	(31,762)	1,201,268
Provision for impairment				
Software	–	–	–	–
Technology know-how	–	–	–	–
Land use right	6,322	–	–	6,322
Operating concessions	–	–	–	–
	6,322	–	–	6,322
Book value				
Software	80,709	20,542	(2,147)	99,104
Technology know-how	3,180	(491)	(140)	2,549
Land use right	775,230	107,600	(1,922)	880,908
Operating concessions	32,171	207,767	(27,553)	212,385
	891,290	335,418	(31,762)	1,194,946

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

15. Intangible assets (continued)

2010

	Opening balance	Increase during the year	Decrease 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 amortization				
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

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

15. Intangible assets (continued)

Amortisation of intangible assets in 2011 amounted to RMB138,640,000 (2010: RMB54,928,000).

At 31 December 2011, intangible assets with a book value of RMB3,681,000 (31 December 2010: RMB2,444,000) were subject to ownership restriction as they had been pledged as security for borrowings.

As at 31 December 2011, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB469,647,000 (31 December 2010: RMB497,717,000).

Deferred development costs are analysed as follows:

2011

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Handsets	**187,049**	**136,194**	**84,343**	**238,900**
System Products	**1,279,455**	**582,042**	**174,787**	**1,686,710**
	1,466,504	**718,236**	**259,130**	**1,925,610**

2010

	Opening balance	Increase during the year	Decrease 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

Deferred development costs accounted for 7.8% of total research and development costs in 2011 (2010: 10.6%).

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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:

	2011	2010
Deferred tax assets		
Unrealized profits arising on consolidation	**90,557**	103,176
Provision for impairment in inventory	**86,465**	48,458
Foreseeable contract losses	**10,265**	12,231
Amortization of deferred development costs	**36,913**	3,235
Provision for warranties and returned goods	**51,904**	69,452
Provision for retirement benefits	**8,108**	6,985
Deductible tax losses	**482,340**	180,796
Accruals	**141,816**	—
Overseas taxes pending deduction	**220,468**	230,912
	1,128,836	655,245
Deferred tax liabilities		
Change in fair value of derivative instruments	**—**	(23,119)
Deemed disposal gain in associates	**—**	(66,048)
	—	(89,167)

Deductible tax losses of unrecognized deferred tax assets:

	2011	2010
Deductible tax losses	**1,889,499**	531,874

Unrecognized tax losses expire in the following years:

	2011	2010
2011	**—**	6,044
2012	**69,995**	14,104
2013	**65,650**	3,650
After 2013	**1,753,854**	508,076
	1,889,499	531,874

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

16. Deferred tax assets/liabilities (continued)

Temporary differences in items of assets or liabilities:

	2011	2010
Deductible temporary differences		
Unrealized profits arising on consolidation	**313,159**	302,312
Provision for inventory impairment	**1,074,135**	716,779
Foreseeable contract losses	**160,242**	170,973
Capitalization of deferred development costs	**254,430**	24,157
Provision for maintenance and returned goods	**347,610**	215,076
Provision for retirement benefits	**48,716**	43,332
Accruals	**780,531**	—
Overseas taxes pending deduction	**1,469,786**	1,539,413
	4,448,609	3,012,042
Taxable temporary differences		
Change in fair value of derivative instruments	**—**	115,417
Deemed disposal gain in associates	**—**	440,318
Temporary difference relating to investments in subsidiaries (Note 1)	**695,306**	1,177,844
	695,306	1,733,579

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 2011, the Group did not recognize income tax liabilities in respect of tax obligations arising from future distribution of the retained profits of the subsidiaries, Nanjing Zhongxing Software Company Limited, Xi'an Zhongxing Software Company Limited and Shenzhen Zhongxing Netview Technology Company Limited, 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.

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

17. Provision for impairment of assets

2011

	Opening balance	Provision for the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	**2,182,947**	**618,479**	**(41,942)**	**(77,406)**	**2,682,078**
Including:					
Trade receivables	**2,089,518**	**618,469**	**(36,176)**	**(71,382)**	**2,600,429**
Long-term receivables	**93,429**	**10**	**(5,766)**	**(6,024)**	**81,649**
Provision for impairment of inventories	**716,779**	**457,639**	**(87,489)**	**(12,794)**	**1,074,135**
Provision for impairment of intangible assets	**6,322**	**—**	**—**	**—**	**6,322**
	2,906,048	**1,076,118**	**(129,431)**	**(90,200)**	**3,762,535**

2010

	Opening balance	Provision for the year	Decrease 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

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.

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

18. Other non-current assets

	2011	2010
Prepayments for project and equipment	**161,722**	—
Up-front fee	**529,518**	—
Risk compensation fund	**949,666**	1,090,086
	1,640,906	1,090,086

19. Short-term loans

		2011		2010		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**4,396,321**	**4,396,321**	1,199,324	1,199,324	
	USD	**723,357**	**4,557,801**	401,427	2,658,531	
	JYP	**500,000**	**40,552**	—	—	
	INR	**650,000**	**76,889**	—	—	
	EUR	**—**	**—**	1,100	9,687	
Guaranteed loans	RMB	**—**	**—**	10,000	10,000	
Secured loans	RMB	**11,800**	**11,800**	7,500	7,500	Note 1
Bill discounted loans	RMB	**1,010,402**	**1,010,402**	382,527	382,527	Note 2
Pledged loans	RMB	**1,085,174**	**1,085,174**	461,360	461,360	Note 3
	USD	**700**	**4,410**	270,811	1,793,500	Note 3
	EUR	**—**	**—**	6,357	55,984	Note 3
			11,183,349		6,578,413	

At 31 December 2011, the annual interest rate of the above loans ranged from 2.00%–12.60% (31 December 2010: 2.00%–7.00%).

Note 1 RMB3,800,000 of the loan was secured by office and plant of Xi'an Zhongxing Jing Cheng Communication Company Limited with book value of RMB3,109,000 and RMB8,000,000 of the loan was secured by Complex building and production workshop, and land of 安徽亞龍通信技術有限公司 with net book values of RMB3,691,000 and RMB3,681,000 respectively.

Note 2 Bill discounted loans were loans discounted by bank acceptance bills and commercial acceptance bills.

Note 3 Pledged loans were loans secured by trade receivables and bills.

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

20. Derivative financial liability

	2011	2010
Derivative financial liability	2,433	40,139
Hedging instruments — current portion	2,872	—
	5,305	40,139

Descriptions of hedging instruments and related hedging:

	2011	2010
Interest rate swap agreement	4,120	—
Non-current portion	1,248	—
Current portion	2,872	—

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and the net loss of RMB4,120,000 was included in shareholders' equity.

	2011	2010
Net fair value loss included in shareholders' equity	4,120	—
Net loss on cash flow hedging	4,120	—

21. Bill payable

	2011	2010
Commercial acceptance bills	3,562,896	2,938,844
Bank acceptance bills	7,586,471	7,117,633
	11,149,367	10,056,477

Amount of bill payable due in the next accounting period will be RMB11,149,367,000 (31 December 2010: RMB10,056,477,000). As at 31 December 2011, bills payable included amounts due to shareholders or related parties holding 5% or more in the voting shares or related parties amounting to RMB45,329,000 (31 December 2010: RMB79,294,000). Please refer to Note VI "The relationships and transactions with related parties".

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

22. Trade payables

An aging analysis of the trade payables are as follows:

	2011	2010
0 to 6 months	**21,114,221**	15,246,419
7 to 12 months	**299,452**	34,558
1 to 2 years	**87,206**	104,584
2 to 3 years	**13,278**	22,766
Over 3 years	**28,728**	32,879
	21,542,885	15,441,206

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

As at 31 December 2011, trade payables included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB267,259,000 (31 December 2010: RMB266,058,000). Please refer to Note VI "The relationships and transactions with related parties".

23. Advances from customers

	2011	2010
Advanced payments for system project work	**1,561,280**	1,923,303
Advanced payments for terminals	**897,148**	821,391
	2,458,428	2,744,694

As at 31 December 2011, advances from customers included amounts due to shareholders or related parties holding 5% or more in the voting share amounting RMB11,251,000 (31 December 2010: RMB9,965,000). Please refer to Note VI "The relationships and transactions with related parties".

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

24. Salary and welfare payables

2011

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	**2,468,214**	**10,772,624**	**(11,661,117)**	**1,579,721**
Staff welfare	**26,076**	**693,078**	**(675,652)**	**43,502**
Social insurance	**16,979**	**1,204,630**	**(1,160,967)**	**60,642**
Including: Pension Insurance	**10,568**	**730,096**	**(697,714)**	**42,950**
Medical Insurance	**6,295**	**369,575**	**(358,929)**	**16,941**
Unemployment Insurance	**207**	**57,528**	**(57,760)**	**(25)**
Working Injuries Insurance	**(58)**	**21,872**	**(21,183)**	**631**
Maternity Insurance	**(33)**	**25,559**	**(25,381)**	**145**
Housing funds	**34,470**	**338,896**	**(347,718)**	**25,648**
Labour union fund and employee education fund	**552,188**	**360,131**	**(212,800)**	**699,519**
	3,097,927	**13,369,359**	**(14,058,254)**	**2,409,032**

2010

	Opening balance	Accruals	Payments	Closing balance
		(Restated)	(Restated)	
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	906,129	(903,237)	16,979
Including: Pension Insurance	10,759	571,304	(571,495)	10,568
Medical Insurance	2,993	268,949	(265,647)	6,295
Unemployment Insurance	208	33,020	(33,021)	207
Working Injuries Insurance	75	14,922	(15,055)	(58)
Maternity Insurance	52	17,934	(18,019)	(33)
Housing funds	1,970	275,408	(242,908)	34,470
Labour union fund and employee education fund	416,446	318,678	(182,936)	552,188
	2,398,720	11,483,526	(10,784,319)	3,097,927

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

25. Tax payable

	2011	2010
Value-added tax	(2,415,940)	(1,356,866)
Business tax	360,607	78,128
Income tax	880,275	885,728
PRC tax	518,668	433,483
Overseas tax	361,607	452,245
Individual income tax	127,488	86,720
City maintenance and construction tax	42,263	18,738
Education surcharge	48,871	16,019
Other taxes	(33,605)	(49,812)
	(990,041)	(321,345)

26. Dividend payable

	2011	2010
Dividend payable to holders of restricted shares	128	97
Dividend payable to minority shareholders	169,918	136,205
	170,046	136,302

27. Other payables

	2011	2010
Employee subscriptions under the share incentive scheme	30,572	276,266
Accruals	747,248	554,359
Contributions to staff housing	464,800	680,000
Payables to external parties	5,722,073	1,089,244
Deposits	21,409	20,026
Factored interests payable	101,759	112,169
Payables to employees	320,108	194,925
Others	118,508	49,336
	7,526,477	2,976,325

As at 31 December 2011, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB2,722,000 (31 December 2010: RMB703,000). Please refer to Note VI "The relationships and transactions with related parties".

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

28. Provisions

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation	**45,617**	**3,455**	**(3,339)**	**45,733**
Provision for returned handsets	**45,524**	**44,040**	**(16,045)**	**73,519**
Provision for warranties	**169,552**	**472,112**	**(367,573)**	**274,091**
	260,693	**519,607**	**(386,957)**	**393,343**

2010

	Opening balance	Increase during the year (Restated)	Decrease during the year (Restated)	Closing balance
Outstanding litigation	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	276,061	(208,768)	169,552
	189,664	310,954	(239,925)	260,693

29. Long-term non-current liabilities due within one year

	2011	2010
Long-term loans due within one year	**693,099**	1,322,817

Long-term loans due within one year are analysed as follows:

		2011		2010	
		Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans	RMB	**–**	**–**	685,000	685,000
	USD	**110,000**	**693,099**	70,000	463,589
Guaranteed loans	RMB	**–**	**–**	20,000	20,000
Secured loans	USD	**–**	**–**	23,280	154,176
	INR	**–**	**–**	350	52
			693,099		1,322,817

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

29. Long-term non-current liabilities due within one year (continued)

As at 31 December 2011, long-term non-current loans due within one year were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate (%)	Balance at the end of 2011 Foreign currency	Balance at the end of 2011 RMB equivalent	Balance at the end of 2010 Foreign currency	Balance at the end of 2010 RMB equivalent
Bank of China	2009.1.20	2012.1.20	USD	Approx. 3%	**50,000**	**315,045**	50,000	331,135
Bank of China	2009.3.12	2012.3.12	USD	Approx. 3%	**40,000**	**252,036**	40,000	264,908
Bank of China	2010.4.21	2012.4.21	USD	Approx. 3%	**20,000**	**126,018**	20,000	132,454

30. Long-term loans

		2011 Original currency	**2011** RMB equivalent	2010 Original currency	2010 RMB equivalent	
Credit loans	RMB	**500,000**	**500,000**	—	—	
	USD	**100,000**	**630,090**	110,000	728,497	
Guaranteed loans	RMB	**—**	**—**	248,143	248,143	
	USD	**883,548**	**5,567,145**	—	—	Note 1
Secured loans	USD	**38,640**	**243,467**	112,140	742,670	Note 2
			6,940,702		1,719,310	

Note 1 The guaranteed loans consisted mainly of guaranteed loans extended to ZTE (H.K.) Limited, a subsidiary, by the Company.

Note 2 The secured loan was secured by the existing network equipment with book value of RMB91,395,000 of Closed Joint Stock Company TK Mobile.

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

30. Long-term loans (continued)

As at 31 December 2011, the top five long-term loans were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate	Balance at the end of 2011		Balance at the end of 2010	
				(%)	Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approx. 3%	438,418	2,762,428	–	–
Bank of China	2011.7.20	2014.7.20	USD	Approx. 2%	345,467	2,176,751	–	–
China Development Bank	2011.7.19	2014.7.19	USD	Approx. 4%	100,000	630,090	–	–
Bank of China	2011.8.15	2014.8.15	USD	Approx. 2%	98,663	621,666	–	–
The Export-Import Bank of China	2011.2.1	2013.2.1	RMB	Approx. 5%	500,000	500,000	–	–

31. Bonds cum warrants

	2011	2010
Opening balance	3,755,790	3,632,681
Interest expenses	160,408	155,109
Interest payments	(32,000)	(32,000)
Balance at year-end	3,884,198	3,755,790

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.

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.

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

31. Bonds cum warrants (continued)

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 equity component of the remaining portions were included in shareholders' equity at fair value.

The exercise period of the bonds cum warrants ended on 12 February 2010. A total of 23,348,590 warrants (accounting for 35.81% of the total number of warrants prior to the exercise) had been exercised. A total of 41,851,410 warrants had remained unexercised and had been cancelled.

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

32. Other non-current liabilities

	2011	2010
Long-term financial guarantee contract	**3,689**	3,689
Provision for retirement benefits	**48,716**	43,332
Factored interests payable	**377,059**	392,211
Hedging instruments — non current portion	**1,248**	—
Deferred income relating to staff housing	**192,833**	—
	623,545	439,232

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

33. Share capital

2011

	Opening balance	Increase/(decrease) during the year Transfer from capital reserve Note 1	Others Note 2	Sub-total	Closing balance
Restricted shares					
Domestic natural person shares	60,142	12,028	(63,044)	(51,016)	9,126
Senior management shares	6,776	1,389	165	1,554	8,330
Total number of restricted shares	66,918	13,417	(62,879)	(49,462)	17,456
Unrestricted shares					
RMB Ordinary shares	2,275,159	454,999	62,879	517,878	2,793,037
Overseas listed foreign shares	524,655	104,930	—	104,930	629,585
Total number of unrestricted shares	2,799,814	559,929	62,879	622,808	3,422,622
Total number of shares	2,866,732	573,346	—	573,346	3,440,078

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

33. Share capital (continued)

2010

	Opening balance	Increase/(decrease) during the year: Issue new shares	Transfer from capital reserve	Others	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

Note 1 On 7 July 2011, the Company implemented the 2010 profit distribution and capitalisation of the capital reserve plan: 2 bonus shares for every 10 shares were issued based on the number of shares held by registered shareholders on the record date by transferring from capital reserve. The share capital was enlarged by a total of 573,346,336 shares to a total of 3,440,078,020 shares. 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 [2011] Yan Zi No. 60438556-H01.

Note 2 As at 19 July 2011, 3,199 Scheme Participants under the first award had satisfied conditions for the third unlocking of Subject Shares under the Phase I Share Incentive Scheme and a total of 60,532,063 A share Subject Shares. On 27 December 2011, 752 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subject Shares. A total of 5,230,667 A shares were unlocked as Subject Shares. 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.

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

34. Capital reserves

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	**8,487,495**	**496,016**	**(573,346)**	**8,410,165**
Change in shareholders' equity of investee net of gains/losses under equity method and other capita reserves	**41,260**	**—**	**—**	**41,260**
Change in fair value of hedging instruments	**—**	**—**	**(4,120)**	**(4,120)**
Equity settled transaction (Note 2)	**462,220**	**41,821**	**(491,539)**	**12,502**
Capital injection from government	**80,000**	**—**	**—**	**80,000**
	9,070,975	**537,837**	**(1,069,005)**	**8,539,807**

2010

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	5,368,316	4,074,756	(955,577)	8,487,495
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 capita reserves	40,509	751	—	41,260
Equity settled transaction	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

Note 1 As at 19 July 2011, 3,199 Scheme Participants under the First Award had fulfilled the conditions for the Third Unlocking of the Subjects Shares under the Phase I Share Incentive Scheme. The total number of Subject Shares to be unlocked was 60,532,063 A shares, and the unlocking was completed on 21 July 2011. An corresponding amount of RMB468,725,000, previously accounted for in Capital Reserve — Share-based Payments, was transferred to Capital Reserve — Capital Premium. As at 27 December 2011, 752 Scheme Participants under the Second Award had fulfilled the conditions for the Second Unlocking of the Subjects Shares under the Phase I Share Incentive Scheme. The total number of Subject Shares to be unlocked was 5,230,667 A shares, and the unlocking was completed on 29 December 2011. An corresponding amount of RMB22,814,000, previously accounted for in Capital Reserve — Share-based Payments, was transferred to Capital Reserve — Capital Premium. In June 2011, due to the increase in capital of the Company's subsidiary ZTEsoft Technology Company Limited, capital reserve — share capital premium was increased by RMB3,143,000. In November 2011, the capital reserve was increased by RMB1,334,000 as a result of the Company's partial disposal of equity interests in Guangdong New Pivot Technology & Service Company Limited, a subsidiary.

The proposals of profit distribution and capitalisation from capital reserve of the Company for 2010 were implemented on 7 July 2011, whereby 2 shares were issued for every 10 shares held by way of capitalization from capital reserves. A share premium amount of RMB573,346,000 was deducted from the capital reserve accordingly.

Note 2 In 2011, equity-settled share-based payments with a total amount of RMB41,821,000 were recognized as current expenses.

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35. 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 the first unlocking of 15,269,290 Subject Shares, being 20% of the First Award had been fulfilled and were listed on 23 July 2009.

Unlocking conditions in respect of the second unlocking of 35% Subject Shares 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 the first unlocking of 20% Subject Shares of the Second Award had been fulfilled and 2,520,957 shares were listed on 15 December 2010.

The proposals of profit distribution and capitalisation from capital reserve of the Company for 2010 were implemented on 7 July 2011, whereby 2 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 74,888,624 shares accordingly. Unlocking conditions in respect of the third unlocking of 45% Subject Shares of the First Award had been fulfilled and 60,532,063 shares were listed on 21 July 2011. Unlocking conditions in respect of the second unlocking of 35% of the Second Award had been fulfilled and 5,230,667 shares were listed on 29 December 2011. After deducting the Subject Shares under the Unlocking, there were 9,125,893 registered Subject Shares for which unlocking conditions had not been fulfilled as at 31 December 2011, among which 2,251,699 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. The Scheme Participants who are out of office due to resignation or termination by the Company before the end of the validity period of the Share Incentive Scheme, the locking Subject Shares can still be exercised by the Scheme Participants pursuant to the Share Incentive Scheme. The lock-up Subject Shares will no longer be unlocked and the Company will return them to the Scheme Participants to raise capital for the subscription costs of Subject Shares and the amount of the lock-up Subject Shares will be lapsed. Therefore, a subscription amount of RMB40,537,000 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".

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

36. Surplus reserves

2011

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory surplus reserves	**1,537,512**	**50,379**	**—**	**1,587,891**

2010

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,505,203	32,309	—	1,537,512

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.

37. Retained profits

	2011	2010
Retained profits at the beginning of the year	**9,222,387**	6,853,682
Net profit	**2,060,166**	3,250,247
Less: Statutory surplus reserves	**50,379**	32,309
Difference between actual distribution and proposed dividend for the previous year	**—**	7,936
Proposed final dividend*	**686,190**	841,297
Retained profits at the end of the year	**10,545,984**	9,222,387

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.

* Please refer to Note X for details of the proposed final dividend for the year. The proposed profit distribution is subject to approval by the General Meeting of the Company.

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

38. Operating revenue and costs

Operating revenue is analysed as follows:

	2011	2010 (Restated)
Revenue	**85,866,525**	69,495,112
Other income	**387,931**	411,574
	86,254,456	69,906,686

Operating cost is analysed as follows:

	2011	2010
Costs of sales	**59,848,244**	47,071,507
Other operating expenses	**309,110**	263,519
	60,157,354	47,335,026

Principal operations by product:

	2011		2010	
	Revenue	**Cost**	Revenue (Restated)	Cost
Networks	**46,522,048**	**28,305,798**	41,976,345	25,852,851
Terminals	**26,933,508**	**22,843,765**	17,646,398	14,295,454
Telecommunications software, services and other products	**12,410,969**	**8,698,681**	9,872,369	6,923,202
	85,866,525	**59,848,244**	69,495,112	47,071,507

Principal operations by geography:

	2011		2010	
	Revenue	**Cost**	Revenue (Restated)	Cost
The PRC	**39,164,458**	**26,050,064**	31,850,760	21,099,265
Asia (excluding the PRC)	**15,587,670**	**11,522,377**	12,638,428	8,874,790
Africa	**10,669,852**	**5,674,103**	10,617,068	5,852,404
Europe, America and Oceania	**20,444,545**	**16,601,700**	14,388,856	11,245,048
	85,866,525	**59,848,244**	69,495,112	47,071,507

Sales to the top five customers of the Group generated revenue of RMB29,096,531,000 in 2011 (2010: RMB28,705,812,000), accounting for 33.89% (2010: 41.31%) of the operating revenue of the Group respectively.

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

39. 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.

40. Taxes and surcharges

	2011	2010 (Restated)
Business tax	**902,012**	551,040
City maintenance and construction tax	**283,939**	54,087
Education surcharge	**196,805**	73,249
Others	**80,145**	113,513
	1,462,901	791,889

For tax standards, please refer to Note III "Taxation".

41. Selling and distribution costs

	2011	2010
Wages, welfare and bonuses	**3,851,279**	2,761,995
Consulting and services charges	**2,448,883**	1,718,485
Travelling expenses	**1,035,633**	1,043,286
Transportation and fuel charges	**508,079**	559,833
Office expenses	**285,239**	348,531
Advertising and promotion expenses	**415,156**	309,983
Rental fees	**313,263**	261,424
Communication expenses	**122,047**	114,136
Others	**1,973,654**	1,637,295
	10,953,233	8,754,968

42. Administrative expenses

	2011	2010
Wages, welfare and bonuses	**935,246**	1,175,614
Office expenses	**220,168**	183,131
Amortization and depreciation charges	**306,362**	177,054
Taxes	**201,962**	170,252
Rental fees	**196,614**	159,533
Travelling expenses	**106,296**	88,316
Others	**465,055**	456,394
	2,431,703	2,410,294

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

43. Gains/(losses) from changes in fair values

	2011	2010
Derivative financial instruments	**(77,860)**	83,597
Financial assets at fair value through profit or loss	**(10,815)**	—
	(88,675)	83,597

44. Investment income

	2011	2010
Investment income from long-term equity investment under equity method	**71,305**	44,123
Investment income from long-term equity investment under cost method	**11,061**	6,023
Investment income from the disposal of trading financial assets	**128,550**	6,699
Investment income from Nationz Technologies	**866,503**	440,318
Investment income from the disposal of available-for-sale financial assets	**5,931**	—
Investment loss from the disposal of subsidiaries	**(18,801)**	—
	1,064,549	497,163

As at 31 December 2011, the Company was not subject to significant restrictions in remitting its investment income.

45. Financial expenses

	2011	2010
Interest expenses	**1,374,163**	728,552
Less: Interest income	**283,618**	101,020
Loss on foreign currency exchange	**836,993**	179,428
Cash discounts and interest subsidy	**95,962**	142,564
Bank charges	**332,819**	248,953
	2,356,319	1,198,477

46. Impairment Losses

	2011	2010
Bad debt provisions	**576,537**	342,972
Inventories provisions/(reversal)	**370,150**	(27,709)
	946,687	315,263

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

47. Non-operating income/Non-operating expenses

Non-operating income

	2011	2010	The amount in the non-recurring profit/loss of the period
Refund of VAT on software products (Note 1)	**1,596,681**	1,341,613	—
Others (Note 2)	**772,029**	660,536	362,946
	2,368,710	2,002,149	362,946

Note 1 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 Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Note 2 Others represent government grant, gains from contract penalties and other gains.

Non-operating expenses

	2011	2010	The amount in the non-recurring profit/loss of the period
Compensation	**91,277**	198,212	91,277
Loss arising from the disposal of non-current assets	**30,629**	24,094	30,629
Others	**41,178**	9,200	41,178
	163,084	231,506	163,084

48. Income tax

	2011	2010
Current income tax	**954,801**	809,803
Deferred income tax	**(562,758)**	73,916
	392,043	883,719

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

48. Income tax (continued)

Reconciliation between income tax and total profit was a follows:

	2011	2010
Total profit	**2,635,136**	4,360,201
Tax at statutory tax rate (Note 1)	**658,784**	1,090,052
Effect of different tax rates applicable to certain subsidiaries	**(499,077)**	(484,618)
Adjustment to current tax in previous periods	**44,357**	144,850
Profits and losses attributable to jointly-controlled entities and associates	**(12,910)**	(8,209)
Income not subject to tax	**(324,956)**	(281,659)
Expenses not deductible for tax	**198,044**	206,219
Utilization of tax losses from previous years	**(66,310)**	(43,468)
Unrecognized tax losses	**394,111**	260,552
Tax charge at the Group's effective rate	**392,043**	883,719

Note 1 The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

49. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company 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.

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

49. Earnings per share (continued)

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

	2011	2010 (Restated)
Earnings		
Net profit attributable to ordinary shareholders of the Company for the year	**2,060,166**	3,250,247
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**3,390,411**	3,323,156
Diluting effect — weighted average number of ordinary shares		
Restricted Shares under share incentive scheme (Note 2)	**6,874**	74,237
Adjusted weighted average number of ordinary shares of the Company	**3,397,285**	3,397,393

Note 1 In July 2011, the Company enlarged its share capital by 573,346,336 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 3,440,078,020 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, 9,125,893 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, 6,874,194 restricted shares (less 2,251,699 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.

50. Other comprehensive income

	2011	2010
Change in fair values of hedging instruments	**(4,120)**	—
Differences arising from foreign currency translation	**(346,067)**	41,399
	(350,187)	41,399

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

51. Notes to cash flow statement

	2011	2010
Cash received in connection with other operating activities:		
Interest income	**283,618**	101,020
Cash paid in connection with other operating activities:		
Selling and distribution costs	**6,851,199**	5,441,026
Administrative expenses and research and development costs	**2,748,303**	2,887,600

52. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement:

Reconciliation of net profit to cash flows from operating activities:

	2011	2010
Net profit	**2,243,093**	3,476,482
Add: Provision for impairment of assets	**946,687**	315,263
Depreciation of fixed assets	**1,008,630**	859,538
Amortisation of intangible assets and deferred development costs	**397,770**	203,453
Amortisation of long-term deferred assets	**17,768**	8,042
Loss on disposal of fixed assets, intangible assets and other long-term assets	**30,629**	24,094
Loss/(gain) from changes in fair value	**88,675**	(83,597)
Finance expenses	**1,330,388**	907,980
Investment income	**(1,064,549)**	(497,163)
Increase in deferred tax assets	**(473,591)**	(11,327)
Increase/(decrease) in deferred tax liabilities	**(89,167)**	85,243
Increase in inventories	**(3,254,859)**	(2,751,161)
Increase in operating receivables	**(9,317,255)**	(8,604,383)
Increase in operating payables	**6,473,093**	7,389,338
Share incentive scheme costs	**41,821**	158,957
Increase in cash not immediately available for payments	**(191,350)**	(538,849)
Net cash flow from operating activities	**(1,812,217)**	941,910

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

52. Supplemental information on cash flow statement (continued)

(2) Disposal of subsidiaries information

	2011
Consideration for the disposal of subsidiaries	**(118,409)**
Disposal of cash and cash equivalents received by subsidiaries	**63,009**
Less: Receipt of cash and cash equivalents held by subsidiaries	**11,599**
Disposal of net cash received by subsidiaries	**51,410**
Disposal of net assets of subsidiaries	**(195,311)**
Current assets	**125,257**
Non-current assets	**978,356**
Current liabilities	**(682,560)**
Non-current liabilities	**(616,364)**

(3) Change in cash and cash equivalents:

	2011	2010
Cash		
Including: Cash on hand	**16,518**	17,394
Bank deposit readily available	**20,645,571**	14,887,705
Cash and cash equivalents at end of year	**20,662,089**	14,905,099

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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 shareholdings (%)	Percentage of voting rights (%)	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Wei Liang	Manufacturing	RMB100 million	30.76%	30.76%	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.

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
北京協力超越科技有限公司	Subsidiary of a shareholder of the Company's controlling shareholder	76678817-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
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder as the Company	75049913-8

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship	Organisation number
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/Associate of the Company	75252829-7
Zhongxing Intelligent Transport System (Wuxi) Company Limited*	Senior management of the Company concurrently acting as director of the related party	72260457-8
Mobi Antenna Technologies (Shenzhen) Company Limited	Company in which a supervisor of the Company's controller shareholder acts as director	71522427-8
Shenzhen Zhongxing Development Company Limited	Chairman of the Company concurrently acting as chairman of the related party	75048467-3
三河中興發展有限公司	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	78409578-0
三河中興物業服務有限公司	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	67854891-8
Chongqing Zhongxing Development Company Limited	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	76591251-1
Zhongxing Energy (Hubei) Company Limited	Subsidiary of the Company where the Chairman of the Company concurrently acts as chairman	79590131-1
南京中興群力信息科技有限公司	Subsidiary of an associate of the Company	69837419-3
Zhongxing Energy (Inner Mongolia) Company Limited	Subsidiary of an associate of the Company	69594973-X
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company	56420239-6
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company	69741992-7

* This year the original related party of the Group Beijing Zhongxing Intelligent Transport System Company Limited was renamed Zhongxing Intelligent Transport System (Wuxi) Company Limited (中興智能交通系統(無錫)有限公司).

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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:

	2011		2010	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Zhongxing Information Company Limited	**10,187**	**0.01**	8,663	0.01
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**2,444**	**—**	80	—
Nationz Technologies Inc.**	**—**	**—**	199	—
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**150**	**—**	443	—
Zhongxing Intelligent Transport System (Wuxi) Company Limited*	**66,476**	**0.08**	10,768	0.02
ZTE Software Technology (Nanchang) Company Limited	**130**	**—**	—	—
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	**5,862**	**0.01**	53,304	0.08
南京中興群力信息科技有限公司	**6,692**	**0.01**	—	—
普興移動通訊設備有限公司	**318,490**	**0.37**	—	—
Zhongxing Energy (Inner Mongolia) Company Limited	**73**	**—**	—	—
Shenzhen Zhongxing Xinyu FPC Company Limited	**521**	**—**	—	—
Wuxi Kaier Technology Company Limited	**505**	**—**	—	—
Zhongxing Energy (Shenzhen) Company Limited	**22**	**—**	—	—
Shenzhen Shenglongfeng Industrial Company Limited	**25**	**—**	—	—
北京協力超越科技有限公司	**4**	**—**	—	—
	411,581	**0.48**	76,066	0.11

In 2011, sales to related parties accounted for 0.48% of the Group's total sales. (2010: 0.11%).

** In May 2011, the intention of the Company to hold shares in former associate Nationz Technologies Inc. ("Nationz Technologies") changed, and investments in Nationz Technologies were reclassified from investments in associates to financial assets dealt with at fair value through current profit or loss. The connected transactions with Nationz Technologies set out above included only transactions with the Group during the period when it was an associate of the Company.

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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:

	2011		2010	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**355,172**	**0.68**	376,294	0.94
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**131,315**	**0.25**	144,488	0.36
Shenzhen Zhongxing Information Company Limited	**1,480**	**—**	2,835	0.01
Xi'an Microelectronics Technology Research Institute	**1,701**	**—**	3,709	0.01
Shenzhen Zhongxing Xinyu FPC Company Limited	**40,135**	**0.08**	25,250	0.06
Nationz Technologies Inc.**	**21,224**	**0.04**	80,488	0.20
Wuxi KaiEr Technology Company Limited	**174,399**	**0.34**	50,892	0.13
Shenzhen Decang Technology Company Limited	**47,674**	**0.09**	59,592	0.15
Shenzhen Fudekang Electronics Company Limited	**69,998**	**0.13**	29,976	0.07
ZTE Software Technology (Nanchang) Company Limited	**4**	**—**	—	—
Shenzhen Jufei Optoelectronics Co., Ltd.	**10,752**	**0.02**	9,926	0.02
Mobi Antenna Technologies (Shenzhen) Company Limited	**274,070**	**0.53**	284,604	0.71
Shenzhen Smart Electronics Company Limited	**558**	**—**	839	—
Zhongxing Xinzhou Complete Equipment Company Limited	**7,583**	**0.01**	27,771	0.07
Shenzhen Shenglongfeng Industrial Company Limited	**27,677**	**0.05**	14,883	0.04
Shenzhen Hongde Battery Company Limited***	**—**	**—**	1,578	—
Shenzhen Weigao Semiconductor Company Limited	**48,349**	**0.10**	31,472	0.08
深圳市遠行科技有限公司	**4,734**	**0.01**	—	—
Zhongxing Energy (Tianjin) Company Limited	**1,215**	**—**	—	—
	1,218,040	**2.33**	1,144,597	2.85

In 2011, purchases from related parties accounted for 2.33% of the Group's total purchases (2010: 2.85%).

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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)

*** Following the sell-down by Shenzhen Ruide Electronic Industrial Company, Limited, a subsidiary of the Company, of its shareholdings in Shenzhen Hongde Batteries Company Limited ("Hongde") in April 2010, Hongde was reclassified from an associate of the Group to an available for sale financial assets. The aforesaid related party transactions between Hongde and the Group included only those transactions entered into during the period when Hongde was an associate of the Group.

Purchase of property from related parties:

	2011	2010
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**–**	152,900

(2) Leasing with related parties:

Lease of properties to related parties:

2011

	Property leased	**Starting date**	**Ending date**	**Lease Gain**
Shenzhen Zhongxing Development Company Limited	**Office**	**2011/1/1**	**2012/12/31**	**1,696**
北京協力超越科技有限公司	**Office**	**2011/1/1**	**2012/12/31**	**37**
Shenzhen Zhongxing WXT Equipment Company Limited	**Office**	**2011/8/9**	**2013/6/9**	**27**
Zhongxing Energy (Shenzhen) Company Limited	**Office**	**2011/1/1**	**2013/8/31**	**273**
Zhongxing Energy (Hubei) Company Limited	**Office**	**2011/7/1**	**2014/6/30**	**106**

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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 to related parties: (continued)

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 (Shenzhen) Company Limited	Office	2010/1/1	2010/12/31	190

Lease of properties from related parties:

2011

	Property leased	**Starting date**	**Ending date**	**Rental expenses**
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**Office**	**2010/4/18**	**2013/4/17**	**8,827**
Shenzhen Zhongxing Development Company Limited	**Office**	**2007/4/18**	**2013/4/17**	**40,593**
三河中興發展有限公司	**Office**	**2011/3/18**	**2013/3/17**	**827**
三河中興物業服務有限公司	**Office**	**2011/3/18**	**2013/3/17**	**166**
Chongqing Zhongxing Development Company Limited	**Office**	**2008/10/23**	**2011/10/22**	**4,430**
	Office	**2011/10/23**	**2011/12/31**	**1,050**

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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 to related parties: (continued)

2010

	Property leased	Starting date	Ending date	Rental expenses
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	2010/4/18	2013/4/17	6,146
	Office	2007/4/18	2010/4/17	2,586
	Office	2007/4/18	2010/4/17	5,555
Shenzhen Zhongxing Development Company Limited	Office	2007/4/18	2013/4/17	38,859
Chongqing Zhongxing Development Company Limited	Office	2008/10/23	2011/10/22	5,137

(3) Guarantees for related parties:

Receiving guarantees from related parties

In 2011, no guarantee was provided by related parties to any subsidiary of the Group.

2010

	Guarantee amount	Effective date	Expiry date	Completed
Shenzhen Zhongxing WXT Equipment Company Limited	8,000	2009.8.25	2010.8.25	Yes

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(4) Other major related transactions

	2011		2010	
		Percentage		Percentage
	Amount	**(%)**	Amount	(%)
Remuneration of key management personnel	**25,489**	**0.19%**	32,150	0.32%

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 RMB2,139,000 (2010: RMB1,886,000) was recognized in accordance with relevant lease contracts.

Office space was leased from related parties by the Group during the year and lease costs of RMB55,893,000 (2010: RMB58,283,000 was recognized in accordance with relevant lease contracts.

(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 RMB25,489,000 (2010: RMB32,150,000). The cost for share-based payment was RMB1,174,000 (2010: RMB5,908,000).

6. Undertaking between the Group and related parties

(1) In October 2009, the Group entered into a purchase agreement with a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited and Zhongxing Xinzhou Complete Equipment Company Limited to purchase from them raw materials for production. For purchases made during the year, please refer to Note VI. 5(1). The Group estimates that total purchases from related parties in 2012 will be no more than RMB1,690 million.

(2) In October 2011, the Group entered into a purchase agreement with a term of 1 year with Mobi Antenna Technologies (Shenzhen) Company Limited to purchase from it raw materials for production. For purchases made during the year, please refer to Note VI. 5(1). The Group estimates that total purchases in 2012 will be no more than RMB600 million.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Undertaking between the Group and related parties (continued)

(3) In December 2011, the Group entered into a lease agreement with a term of 3 years with Chongqing Zhongxing Development Company Limited. For rental amounts incurred during the year, please refer to Note VI. 5(2). The Group estimates that the annual rental amount for the period from 2012 to 2014 will be no more than RMB11.40 million.

(4) In November 2010, the Group entered into a lease agreement with a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. For rental amounts incurred during the year, please refer to Note VI. 5(2). The Group estimates that the annual rental amount for 2012 and 2013 will be no more than approximately RMB8,827,000 and RMB2,942,000, respectively.

(5) In April 2010, the Group entered into a lease agreement with a term of 3 years with Shenzhen Zhongxing Development Company Limited. For rental amounts incurred during the year, please refer to Note VI. 5(2). The Group estimates that the annual rental amount for 2012 and 2013 will be no more than approximately RMB44.16 million and RMB14.72 million, respectively.

(6) In March 2011, the Group entered into a lease agreement with a term of 3 years with 三河中興發展有限公司. For rental amounts incurred during the year, please refer to Note VI. 5(2). The Group estimates that the annual rental amount for 2012 and 2013 will be no more than approximately RMB1,433,000 and RMB307,000, respectively.

(7) In March 2011, the Group entered into a lease agreement with a term of 3 years with 三河中興業務有限公司. For rental amounts incurred during the year, please refer to Note VI. 5(2). The Group estimates that the annual rental amount for 2012 and 2013 will be no more than approximately RMB265,000 and RMB141,000, respectively.

(8) The Group and Zhongxing Intelligent Transport System (Wuxi) Company Limited entered into certain sales contract. For details of sales incurred during the year, please refer to Note VI.5 (1). As at the end of the year, contracts involving a sales amount of approximately RMB8,980,000 were outstanding.

(9) In December 2011, the Group and Zhongxing Energy (Shenzhen) Company Limited entered into a property lease contract. For details of rental income incurred during the year, please refer to Note VI.5 (2). Rental income for 2012 and 2013 is estimated at RMB599,000 and RMB399,000, respectively.

(10) In October 2010, the Group and Shenzhen Zhongxing Development Company Limited entered into a property lease contract. For details of rental income incurred during the year, please refer to Note VI.5 (2). Rental income for 2012 is estimated at RMB1,696,000.

(11) In November 2010, the Group and 北京協力超越科技有限公司 entered into a property lease contract for a term of two years. For details of rental income incurred during the year, please refer to Note VI.5 (2). Rental income for 2012 is estimated at RMB37,000.

(12) In August 2011, the Group and Shenzhen Zhongxing WXT Equipment Company Limited entered into a property lease contract. For details of rental income incurred during the year, please refer to Note VI.5 (2). Rental income for 2012 and 2013 is estimated at RMB69,000 and RMB30,000, respectively.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Undertaking between the Group and related parties (continued)

(13) In July 2011, the Group and Zhongxing Energy (Hubei) Company Limited entered into a property lease contract. For details of rental income incurred during the year, please refer to Note VI.5 (2). Rental income for 2012, 2013 and 2014 is estimated at RMB212,000, RMB212,000 and RMB106,000, respectively.

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	2011	2010
Bills receivable	Zhongxing Intelligent Transport System (Wuxi) Company Limited*	**3,260**	–
		3,260	–
Trade receivables	Shenzhen Zhongxing Information Company Limited	**10,084**	4,185
	Nationz Technologies Inc.**	**–**	202
	ZTE Software Technology (Nanchang) Company Limited	**52**	1
	Zhongxing Intelligent Transport System (Wuxi) Company Limited*	**13,513**	3,500
	Shenzhen Weigao Semiconductor Company Limited	**1,467**	3,774
	普興移動通訊設備有限公司	**88,966**	–
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**77**	–
	Shenzhen Zhongxing Xinyu FPC Company Limited	**133**	–
		114,292	11,662
Prepayments	Shenzhen Zhongxing Information Company Limited	**393**	1,650
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**484**	484
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**642**	–
		1,519	2,134
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	**1,500**	1,875
		1,500	1,875
Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**665**	725
	Shenzhen Smart Electronics Company Limited	**71**	272
	Shenzhen Decang Technology Company Limited	**30,711**	4,689
	Wuxi KaiEr Technology Company Limited	**7,564**	11,097
	Shenzhen Zhongxing Xinyu FPC Company Limited	**1,140**	554
	Mobi Antenna Technologies (Shenzhen) Company Limited	**–**	409
	Shenzhen Fudekang Electronics Company Limited	**95**	621
	Shenzhen Weigao Semiconductor Company Limited	**5,083**	927
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**–**	60,000
		45,329	79,294

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2011	2010
Trade payables	Shenzhen Smart Electronics Company Limited	**87**	291
	Zhongxing Xinzhou Complete Equipment Company Limited	**2,514**	12,364
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**70,404**	92,772
	Shenzhen Zhongxing WXT Equipment Company Limited	**433**	327
	Shenzhen Zhongxing Information Company Limited	**15,021**	2,820
	Shenzhen Zhongxing Xinyu FPC Company Limited	**1,236**	4,611
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**24,958**	19,024
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	Shenzhen Weigao Semiconductor Company Limited	**11,476**	3,482
	Shenzhen Shenglongfeng Industrial Company Limited	**9,585**	3,646
	Xi'an Microelectronics Technology Research Institute	**–**	369
	Shenzhen Jufei Optoelectronics Co., Ltd.	**2,066**	2,084
	Nationz Technologies Inc.**	**–**	12,967
	Shenzhen Decang Technology Company Limited	**2,176**	11,196
	Wuxi KaiEr Technology Company Limited	**78,985**	10,276
	Mobi Antenna Technologies (Shenzhen) Company Limited	**34,807**	83,107
	Shenzhen Fudekang Electronics Company Limited	**13,335**	6,546
		267,259	266,058

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2011	2010
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,323	5,851
	Xi'an Microelectronics Technology Research Institute	2	2
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	588	2,954
	北京協力超越科技有限公司	54	—
	南京中興群力信息科技有限公司	360	—
	Zhongxing Intelligent Transport System (Wuxi) Company Limited*	4,924	1,158
		11,251	9,965
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	Shenzhen Zhongxing Information Company Limited	48	48
	Shenzhen Zhongxing Development Company Limited	215	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	2,363	417
	Zhongxing Energy Company Limited	—	11
	Shenzhen Zhongxing Xinyu FPC Company Limited	31	—
	Zhongxing Energy (Hubei) Company Limited	53	—
		2,722	703
Dividend payable	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1,149	—
		1,149	—

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

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VII. SHARE-BASED PAYMENT

1. Overview

	2011	2010
Total amount of employee service in consideration for which share based payments were made	**1,106,794**	1,106,794

	2011	2010
Equity-settled share-based payments are as follows:		
Accumulated amount of equity-settled share-based payments in capital reserves	**12,502**	462,220
Total costs of equity-settled share-based payments in the year	**41,821**	158,957

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.

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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.

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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 RMB41,821,000 (2010: RMB158,957,000) at Share Incentive Scheme expenses for the year and an aggregate amount of RMB1,100,071,000 (2010: RMB1,058,250,000) 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 Share Incentive Scheme for the current period 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. As at 25 November 2010, the lock-up period of Subject Shares under the Second Award had expired and conditions for the unlocking of such share had been fulfilled. For details of the unlocking of Subject Shares, please refer to Note V.35.

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VIII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB53,683,000). 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 RMB23,081,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. 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 litigation is likely to continue for a considerable amount of time. 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 and the progress of the case, the Directors of the Company 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 for the current period.

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 Nanshan District People's 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 to the Nanshan District People's Court 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 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. Currently the case is under trial and joint consideration. 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. As of now the two trials have suspended. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, the Directors of the Company 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 for the current period.

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VIII. CONTINGENT EVENTS (continued)

3. On 9 December 2011, the Company and ZTE USA, Inc. ("ZTE USA"), its wholly-owned subsidiary, received a petition for arbitration filed by four USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the above case, the Directors of the Company 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 for the current period.

4. A lawsuit on breach of agreement and infringement was instituted against the Company and ZTE (USA) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between Universal Telephone Exchange, Inc. ("UTE") and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons, the attorney of the Company filed a written response to the court categorically denying UTE's charges against the Company and ZTE (USA) and also disputing the jurisdiction of the said court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to such Discovery Request.

   Upon due enquiries, it came to the knowledge of our attorney that UTE's business license in Texas was terminated on 21 May 2010. On this basis, our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated. On 29 March 2011, UTE filed a written response to the dissent of ZTE USA, requesting the court to reject ZTE USA's dissent and rule that UTE had the right to engage in legal actions on the grounds that its business license had been reinstated. On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court pending its ruling. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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VIII. CONTINGENT EVENTS (continued)

5. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

6. As at 31 December 2011, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB9,752,558,000.

7. As at 31 December 2011, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB65,213,000 (31 December 2010: RMB66,179,000). The aforesaid guarantee will expire in December 2013 and September 2018.

IX. COMMITMENTS

	2011	2010
Capital commitments		
Contracted but not provided for	**836,989**	747,546
Authorised by the Board but not yet contracted	**21,752,024**	14,227,386
	22,589,013	14,974,932
Investment commitments		
Contracted but performance not completed	**945**	76,171

X. EVENTS AFTER THE REPORTING PERIOD

1. As at 19 March 2012, Shenzhen Jufei Optoelectronics Co., Ltd. ("Jufei"), an associate of the Group, was listed in GEM Board of Shenzhen Stock Exchange. The listing price of Jufei was RMB25 per share, and 20,460,000 shares were issued upon the initial public offering. 12.87 million shares of Jufei, representing 21.62% of the total share capital of Jufei before the offering, were held by Shenzhen Changfei Investment Company Limited, a subsidiary of the Company.

2. Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB 2 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,440,078,020 shares as at 31 December 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 2011 profit distribution (the "Record Date"). As at 28 March 2012, 9,125,893 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 2011 profit distribution proposal will be 3,430,952,127 shares, on which basis the 2011 profit distribution plan will be implemented. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.

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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:

	2011	2010
Within one year (including first year)	**359,270**	449,170
In the first to second years (including second year)	**288,443**	306,334
In the second to third years (including third year)	**288,443**	233,020
After the third year	**885,442**	848,653
	1,821,598	1,837,177

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 2011.

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.

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

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.

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.

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2011

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	46,522,048	–	9,129,909	55,651,957
Sales of goods and services	–	26,933,508	3,668,991	30,602,499
Sub-total	46,522,048	26,933,508	12,798,900	86,254,456
Segment results	11,519,506	212,726	1,948,736	13,680,968
Unallocated revenue				2,368,710
Unallocated cost				(11,040,853)
Finance costs				(2,356,319)
Loss from changes in fair values				(88,675)
Investment income from associates and joint ventures				71,305
Total profit				2,635,136
Income tax				(392,043)
Net profit				2,243,093
Total assets				
Segment assets	40,918,534	13,141,415	11,257,292	65,317,241
Unallocated assets				40,050,873
Sub-total				105,368,114
Total liabilities				
Segment liabilities	9,964,112	767,660	2,741,274	13,473,046
Unallocated liabilities				65,606,293
Sub-total				79,079,339
Supplemental information				
Capital expenditure	2,072,898	1,200,085	570,284	3,843,267
Depreciation and amortization expenses	768,137	444,706	211,325	1,424,168
Asset impairment losses	510,603	295,609	140,475	946,687

Notes to Financial Statements

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(All amounts in RMB'000 unless otherwise stated)
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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2010 (Restated)

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	41,976,345	—	6,864,654	48,840,999
Sales of goods and services	—	17,646,398	3,419,289	21,065,687
Sub-total	41,976,345	17,646,398	10,283,943	69,906,686
Segment results	10,390,586	941,051	1,693,166	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

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2011	2010 (Restated)
The PRC	**39,496,611**	32,197,530
Asia (excluding the PRC)	**15,633,325**	12,687,912
Africa	**10,677,523**	10,639,010
Europe, America and Oceania	**20,446,997**	14,382,234
	86,254,456	69,906,686

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2011	2010
The PRC	**9,530,030**	7,195,011
Asia (excluding the PRC)	**1,003,877**	939,248
Africa	**393,940**	1,565,902
Europe, America and Oceania	**838,736**	377,909
	11,766,583	10,078,070

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 and terminal from three major customers amounted to RMB9,376,443,000 (2010: RMB8,915,191,000).

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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, 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 interest rate swap contracts with the aim of managing the foreign exchange risk and interest rate risk in the Group's 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:

2011

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	—	21,471,967	—	21,471,967
Trading financial assets	95,618	—	—	95,618
Available-for-sale financial assets	—	—	819,972	819,972
Bills receivable	—	3,223,529	—	3,223,529
Trade receivables and long-term receivables	—	24,737,699	—	24,737,699
Factored trade receivables and factored long-term receivables	—	7,779,179	—	7,779,179
Other receivables excluding dividends receivable	—	2,117,200	—	2,117,200
Other non-current assets	—	949,666	—	949,666
	95,618	60,279,240	819,972	61,194,830

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2011 (continued)

Financial liabilities

	Financial liabilities dealt with at fair value through current profit or loss	**Other financial liabilities**	**Derivatives designated as effective hedging instruments**	**Total**
Trading financial liabilities	**2,433**	**—**	**2,872**	**5,305**
Bank loans	**—**	**18,817,150**	**—**	**18,817,150**
Bills payables	**—**	**11,149,367**	**—**	**11,149,367**
Trade payables	**—**	**21,542,885**	**—**	**21,542,885**
Bank advances on factored trade receivables and long-term trade receivables	**—**	**7,945,814**	**—**	**7,945,814**
Other payables (excluding accruals)	**—**	**6,779,229**	**—**	**6,779,229**
Bonds cum Warrants	**—**	**3,884,198**	**—**	**3,884,198**
Long-term factored interest payable	**—**	**377,059**	**—**	**377,059**
Long-term financial guarantee contract	**—**	**3,689**	**—**	**3,689**
Other non-current liabilities (non-current portion of hedging instruments)	**—**	**—**	**1,248**	**1,248**
	2,433	**70,499,391**	**4,120**	**70,505,944**

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

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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
Long-term factored interest payable	—	392,211	392,211
Long-term financial guarantee contract	—	3,689	3,689
	40,139	49,681,166	49,721,305

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.

Notes to Financial Statements

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Credit risk (continued)

Although the top five accounts accounted for 40.07% 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. The Group did not hold any collateral or other credit enhancements over the balances of the trade receivables.

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.

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analysed as follows:

2011

			Overdue for			
	Total	**Not overdue/ not impaired**	**Less than 1 year**	**1–2 years**	**2–3 years**	**Over 3 years**
Trade receivables	**23,873,425**	**5,746,119**	**16,853,412**	**1,174,085**	**99,809**	**—**
Long-term receivables	**864,274**	**864,274**	**—**	**—**	**—**	**—**
Other receivables	**2,118,700**	**—**	**1,905,644**	**149,446**	**42,860**	**20,750**

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

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

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.

The maturity profile of financial assets and financial liabilities based on undiscounted contractual cash flow is summarised as follows:

2011

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Indefinite	Total
Trading financial assets	87,180	8,438	–	–	–	–	95,618
Cash	20,662,089	809,878	–	–	–	–	21,471,967
Available-for-sale financial assets	–	–	–	–	–	819,972	819,972
Bills receivable	–	3,223,529	–	–	–	–	3,223,529
Trade receivables and long term receivable	18,127,306	5,746,119	592,475	104,028	261,772	–	24,831,700
Factored trade receivables and factored long-term receivables	–	3,623,096	1,928,864	763,847	1,463,372	–	7,779,179
Other receivables (excluding dividends receivable)	2,117,200	–	–	–	–	–	2,117,200
Other non-current assets	–	–	195,307	131,210	623,149	–	949,666
	40,993,775	13,411,060	2,716,646	999,085	2,348,293	819,972	61,288,831

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2011 (continued)

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	12,091,433	532,455	3,655,890	3,356,192	19,635,970
Derivative financial liabilities	–	5,298	–	–	–	5,298
Bills payable	–	11,149,367	–	–	–	11,149,367
Trade payables	21,542,885	–	–	–	–	21,542,885
Bank advances on factored trade receivables and long-term trade receivables	–	3,789,731	2,161,907	898,008	1,806,161	8,655,807
Other payables (excluding accruals)	6,677,470	101,759	–	–	–	6,779,229
Bonds cum warrants	–	32,000	4,032,000		–	4,064,000
Factored interest payable	–	–	92,538	80,700	304,113	477,351
Long-term financial guarantee contract	68,902	–	–	–	–	68,902
Other non-current liabilities (non-current portion of hedging instruments)	–	–	3,465	1,835	(4,157)	1,143
	28,289,257	27,169,588	6,822,365	4,636,433	5,462,309	72,379,952

2010

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Indefinite	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 receivable	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
	30,017,156	8,747,695	2,443,584	1,512,904	2,719,389	342,706	45,783,434

Notes to Financial Statements

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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

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 2011.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the ends of the reporting periods were as follows:

	2011	2010
	RMB'000	RMB'000
Interest-bearing bank borrowings	**18,817,150**	9,620,540
Total equity	**26,288,775**	24,961,998
Total equity and interest-bearing bank borrowings	**45,105,925**	34,582,538
Gearing ratio	**42%**	28%

Market risk

Market risk refers to the risk of changes in the fair value or future cash flow of financial instruments. Market risks include mainly interest rate risks and exchange rate risks.

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 2011, 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 10.5%. In addition, the Group borrowed a USD900 million loan at floating interest rates. The Group intends to enter into interest rate swaps with a nominal principal amount of no more than USD900 million at an appropriate timing as a hedge against the said USD loan, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. As at 31 December 2011, taking into account interest rate swaps for a nominal principal amount of USD100 million (2010: Nil) already executed, approximately 26% (2010: 39%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit	Increase/ (decrease) in shareholders' equity
2011	**0.25%**	**(34,740)**	**7,031**
	(0.25%)	**34,740**	**(7,031)**
2010	0.25%	(14,668)	—
	(0.25%)	14,668	—

* excluding retained earnings.

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 USD and RMB and certain portion of the bank loans is denominated in USD. 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 net profit, with all other variables held constant, as at the balance sheet date.

	Increase/decrease in US dollars exchange rate	Impact on net profit
2011		
Weaker RMB against USD	**+3%**	**(37,165)**
Stronger RMB against USD	**–3%**	**37,165**
2010		
Weaker RMB against USD	+3%	199,750
Stronger RMB against USD	–3%	(199,750)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Foreign currency risk (continued)

	Increase/decrease in EUR exchange Rate	Impact on total profit
2011		
Weaker RMB against EUR	**+5%**	**210,820**
Stronger RMB against EUR	**–5%**	**(210,820)**
2010		
Weaker RMB against EUR	+5%	123,964
Stronger RMB against EUR	–5%	(123,964)

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 interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts 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 an interest rate swap and a forward exchange contract is identical with its fair value. As at 31 December 2011, the mark-to-market value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Fair value (continued)

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:

2011

	Level 1	**Level 2**	**Level 3**	**Total**
Trading financial assets	**87,180**	**8,438**	**—**	**95,618**
Derivative financial liabilities	**—**	**(6,553)**	**—**	**(6,553)**

2010

	Level 1	Level 2	Level 3	Total
Derivative financial assets	—	123,365	—	123,365
Derivative financial liabilities	—	(40,139)	—	(40,139)

XII. COMPARATIVE DATA

Certain comparative data have been restated to conform with the presentation requirements for the current year. The comparative revenue and cost of sales of RMB357,188,000 have been reclassified and restated to conform with the current year's presentation and accounting treatment to recognize the revenue net of Brazilian taxes of IPI and ICMS.

Notes to Financial Statements

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	2011			2010		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	**13,028,980**	**1.0000**	**13,028,980**	6,751,582	1.0000	6,751,582
USD	**2,405,289**	**6.3009**	**15,155,485**	1,993,012	6.6227	13,199,121
EUR	**474,344**	**8.1625**	**3,871,833**	375,275	8.8065	3,304,859
Other			**1,079,726**			1,028,025
			33,136,024			24,283,587

Aging analysis of trade receivables:

	2011	2010
Within 1 year	**26,336,644**	18,947,934
1–2 years	**3,650,163**	2,762,847
2–3 years	**1,806,894**	2,363,208
Over 3 years	**3,370,060**	1,862,034
	35,163,761	25,936,023
Less: Bad debt provision for trade receivables	**2,027,737**	1,652,436
	33,136,024	24,283,587

	2011				2010			
	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	**531,664**	**2**	**531,664**	**100**	482,379	2	482,379	100
For which collective bad debt provision is made								
0–6 months	**21,905,651**	**62**	**–**	**–**	15,083,368	58	–	–
7–12 months	**4,397,928**	**13**	**105,230**	**2**	3,864,566	15	132,274	3
13–18 months	**2,262,376**	**6**	**269,427**	**12**	1,802,688	7	277,533	15
19–24 months	**1,344,243**	**4**	**148,503**	**11**	960,159	4	156,436	16
2–3 years	**1,740,232**	**5**	**458,397**	**26**	2,363,208	9	553,963	23
Over 3 years	**2,981,667**	**8**	**514,516**	**17**	1,379,655	5	49,851	4
	34,632,097	**98**	**1,496,073**	**4**	25,453,644	98	1,170,057	5
	35,163,761	**100**	**2,027,737**	**6**	25,936,023	100	1,652,436	6

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

1. Trade receivables (continued)

Movements in bad-debt 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	
2011	**1,652,436**	**388,701**	**—**	**(13,400)**	**2,027,737**
2010	1,385,419	267,507	—	(490)	1,652,436

There was no write-back or recovery of individually significant trade receivables, for which bad debt provision had been individually made, in 2011 (2010: Nil).

	2011	2010
Total trade receivables from top five accounts	**13,758,197**	11,738,548
As a percentage of total trade receivables	**39.13%**	45.26%

As at 31 December 2011, trade receivables amounting to RMB102,479,000 were due from shareholders holding 5% or more in the voting shares (31 December 2010: RMB3,579,000).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". Factored trade receivables amounts to RMB3,306,558,000 (31 December 2010: RMB2,864,307,000). Bank advances on factored trade receivables amounts to RMB3,473,193,000 (31 December 2010: RMB2,864,307,000)

2. Other receivables

The aging analysis of other receivables:

	2011	2010
Within 1 year	**3,181,643**	5,152,767
1 to 2 years	**63,203**	166,324
2 to 3 years	**115,459**	264,816
Over 3 years	**117,401**	94,343
	3,477,706	5,678,250
Less: Bad debt provision for other receivables	**—**	—
	3,477,706	5,678,250

	2011	2010
Total other receivables from top five accounts	**1,667,922**	4,124,601
As a percentage of total amounts of other receivables	**47.96%**	72.64%

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

2. Other receivables (continued)

As at 31 December 2011, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2010: Nil).

3. Available-for-sale financial assets

	2011	2010
Available-for-sale equity instruments	**212,448**	244,448

4. Long-term receivables

	2011	2010
Loans granted to subsidiaries (Note 1)	**2,863,839**	764,790
Installment payments for the provision of telecommunication system construction projects	**821,686**	555,050
Less: Bad debt provision for long-term receivables	**51,774**	57,529
	3,633,751	1,262,311

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments ini overseas business operations.

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	
2011	**57,529**	**—**	**(5,755)**	**—**	**51,774**
2010	73,771	—	(16,242)	—	57,529

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 RMB4,059,772,000 (31 December 2010: RMB5,097,718,000).

5. Long-term equity investments

		2011	2010
Equity method			
Joint ventures	(1)	**43,940**	—
Associates	(2)	**321,562**	809,174
Cost method			
Subsidiaries	(3)	**4,481,184**	2,807,398
Less: Provision for impairment in long-term equity Investments	(4)	**96,215**	100,748
		4,750,471	3,515,824

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

5. Long-term equity investments (continued)

2011

(1) Joint ventures

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
普興移動通訊設備有限公司	43,500	–	43,940	43,940	33.85%	50%	–

(2) 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	540,495	(540,495)	–	1.15%	1.15%	10,880
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	–	–	–	30%	30%	–
Zhongxing Energy Company Limited	300,000	261,921	25,866	287,787	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	22,845	2,314	17,545	19,859	49%	49%	–
上海中興群力信息科技有限公司	2,000	1,967	9,472	11,439	40%	40%	–
		809,174	(487,612)	321,562			10,880

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

5. Long-term equity investments (continued)

2011 (continued)

(3) 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	580,000	45,000	535,000	580,000	90%	90%	535,000
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%	–
ZTE (H.K.) Limited	449,362	449,362	–	449,362	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	2,379
Telrise (Cayman) Telecom Ltd.	21,165	21,165	–	21,165	100%	100%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	99%	99%	–
Congo-Chine Telecom S.A.R.L	–	72,835	(72,835)	–	–	–	–
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	–	3,900	65%	65%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	31,666	31,666	–	31,666	80%	80%	–
Nanjing ZTEsoft Technology Company Limited	45,489	45,489	–	45,489	75%	75%	–
ZTE (UK) Ltd.	–	5,286	(5,286)	–	–	–	–
ZTE Do Brasil LTDA	18,573	18,573	–	18,573	100%	100%	–
Shenzhen Zhongxing Software Company Limited	156,500	36,500	120,000	156,500	74%	74%	3,018,441
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
ZTE Wistron Telecom AB	2,137	2,137	–	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.	42	42	–	42	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	93%	93%	–
Guangdong New Pivot Technology & Service Company Limited	4,000	4,500	(500)	4,000	80%	80%	–

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

5. Long-term equity investments (continued)

2011 (continued)

(3) 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
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	450,000
Shanghai Zhongxing Telecom Equipment Technology Company Limited	5,100	5,100	–	5,100	51%	51%	3,825
ZTE Holdings (Thailand) Co., Ltd.	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	4,644
ZTE Telecom India Private Ltd.	304,068	258,361	45,707	304,068	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%	3,030
Closed Joint Stock Company TK Mobile	16,871	16,871	–	16,871	51%	51%	–
PT. ZTE Indonesia	15,276	15,276	–	15,276	100%	100%	–
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	–	6,000	80%	80%	7,500
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%	300,000
中興國通通訊裝備技術(北京)有限公司	15,200	2,000	13,200	15,200	76%	76%	–
Shenzhen Zhongxing ICT Company Limited	24,000	24,000	–	24,000	80%	80%	24,000
ZTE (Hangzhou) Company Limited	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%	–
ZTE Microelectronics Technology Company Limited	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	–
ZTE Group Finance Co., Ltd	1,000,000	–	1,000,000	1,000,000	100%	100%	–
深圳市百維技術有限公司	10,000	–	10,000	10,000	100%	100%	–
深圳市中興供應鏈有限公司	28,500	–	28,500	28,500	95%	95%	–
		2,807,398	1,673,786	4,481,184			4,348,819

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

5. Long-term equity investments (continued)

2011 (continued)

(4) Provisions 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 ZTE Mobile Telecom Co., Ltd	17,657	–	17,657
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
ZTE (UK) Ltd.	4,533	(4,533)	–
	100,748	(4,533)	96,215

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			–

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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 ZTE Mobile Telecom Co., Ltd	31,666	31,666	–	31,666	80%	80%	23,750
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%	–
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%	2,730

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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
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%	–
ZTE (Hangzhou) Company Limited	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%	–
ZTE Microelectronics Technology Company Limited	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

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

5. Long-term equity investments (continued)

2010 (continued)

(3) Provision 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 ZTE Mobile Telecom Co., Ltd	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

6. Operating revenue and costs

Operating revenue is analysed as follows:

	2011	2010
Revenue	**71,640,021**	62,316,651
Other income	**3,704,281**	34,711
	75,344,302	62,351,362

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

6. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	2011	2010
Costs of sales	**66,192,140**	53,554,393
Other operating expenses	**10,167**	10,095
	66,202,307	53,564,488

Sales to the top five customers of the Group generated revenue of RMB28,733,062,000 in 2011 (2010: RMB27,897,433,000), accounting for 40.11% (2010: 44.77%) of the operating revenue of the Group.

7. Investment income

	2011	2010
Investment income from long-term equity investment under equity method	**42,247**	20,192
Investment income from long-term equity investment under cost method	**4,359,520**	1,721,237
Investment income/(loss) from the disposal of trading financial instruments	**155,834**	6,699
Investment income from Nationz Technologies	**866,503**	440,318
Investment loss from the disposal of subsidiaries	**(183,074)**	—
Investment income from the disposal of available-for-sale financial assets	**5,931**	—
Investment income from the disposal of certain equities of subsidiaries	**1,334**	—
	5,248,295	2,188,446

As at 31 December 2011, the Company was not subject to significant restrictions in remitting its investment income.

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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:

	2011	2010
Net profit	**503,793**	323,088
Add: Impairment losses	**564,900**	304,305
Depreciation of fixed assets	**570,525**	439,093
Amortisation of intangible assets and development cost	**189,602**	98,402
Loss on disposal of fixed assets, intangible assets and other long term assets	**11,842**	10,927
Loss/(gain) from changes in fair value	**34,799**	(23,984)
Finance expenses	**901,487**	659,500
Investment income	**(5,248,295)**	(2,188,446)
Increase in deferred tax assets	**(175,203)**	(64,879)
Increase/(decrease) in deferred tax liabilities	**(66,048)**	64,905
Increase in inventories	**(3,315,150)**	(1,175,676)
Increase in operating receivables	**(8,917,597)**	(9,782,504)
Increase in operating payables	**16,931,563**	12,297,690
Equity settled share expenses	**41,821**	158,957
Decrease/(increase) in cash subject to ownership restrictions	**27,686**	(378,790)
Net cash flows from operating activities	**2,055,725**	742,588

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
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1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Amount for 2011
Loss from the disposal of non-current assets	(30,629)
Investment gains from disposal of equity investment	847,702
Profit and loss of changes in fair value arising from 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	45,806
Net amount of other non-operating income and expenses	230,491
Other gain/(loss) items within the definition of extraordinary gain/(loss)	74,841
Effect of income tax	175,232
	992,979

Note 1: 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 2011	Reason
Refund of VAT on software products	1,596,681	In line with national policies and received on an ongoing basis
Refund of individual tax	12,436	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

2011

	Weighted average return on net assets (%)	**Earnings per share**	
		Basic	**Diluted**
Net profit attributable to ordinary shareholders of the Company	**8.74%**	**RMB0.61**	**RMB0.61**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**4.53%**	**RMB0.31**	**RMB0.31**

2010

	Weighted average return on net assets (%)	Earnings per share (Restated)	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	15.32%	RMB0.98	RMB0.96
Net profit after extraordinary items attributable to ordinary shareholders of the Company	12.88%	RMB0.82	RMB0.80

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
Cash	Mainly attributable to the increase in payments for goods recovered at year end
Bills receivable	Mainly attributable to more frequent receipts of payments in the form of acceptances
Trade receivable	Mainly attributable to increased sales and longer payment collection periods
Other receivables	Mainly attributable to the increase in sub-contract loans
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
Long-term equity investments	Mainly attributable to the reclassification of long-term equity investment on Nationz Technologies to trading financial assets
Construction in progress	Mainly attributable to the increase in investments in Xi'an R&D Centre and other projects
Intangible assets	Mainly attributable to the increase in the Company's license rights and land use rights
Deferred development costs	Mainly as a result of capitalisation of R&D expenses in communications systems and certain handset products
Deferred tax assets	Mainly representing deferred tax assets arising from deductible losses of the Company
Other non-current assets	Mainly attributable to the increase in the upfront expenses for capitalisation
Short-term loans	Mainly attributable to the increase in loans to meet short-term cash flow requirements
Derivative financial liability	Mainly attributable to settlement of certain derivative investments upon maturity
Trade payable	Mainly attributable to increased sales and as a result of increased purchase of raw materials and longer payment periods
Taxes payable	Mainly as a result of the increase in deductible Input VAT tax
Other payables	Mainly attributable to the increase of factored trade receivables
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
Long-term loans	Mainly attributable to the increase in loans to meet long-term cash flow requirements
Deferred tax liabilities	Mainly attributable to the reversal of deferred income tax liability in respect of investment gains derived from proceeds from the issue and listing of new shares in Nationz Technologies

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
Other non-current liabilities	Mainly attributable to the increase in staff housing payments accounted for as long-term liabilities
Restricted shares remaining in lock-up	Mainly reflecting the unlocking of certain Subject Shares under the Phase I Share Incentive Scheme
Foreign currency translation differences	Mainly reflecting the effect of exchange rate fluctuations

Income Statement Items	Analysis of reasons
Taxes and surcharges	Mainly attributable to taxable income subject to business tax and the increase in city maintenance and construction tax and education surcharge
Finance costs	Mainly attributable to the increase in exchange losses arising from exchange rate fluctuations for the period and the increase in interest expense
Asset impairment losses	Mainly attributable to the increase in provision for inventories during the period as compared to the write back of provision during the same period last year
Gains/losses from change in fair values	Mainly attributable to the part of gains on changes in fair value transferred to investment income upon maturity and settlement of the derivative investment
Investment income	Mainly attributable to the gains on equity disposal of Nationz Technologies, and to the transfer to investment income of gains on changes in fair value of certain derivative investments upon maturity and settlement during the period
Income tax	Mainly attributable to the decrease in total profit and the increase in deferred tax assets arising from deductible losses
Other comprehensive income	Mainly reflecting the change in translation differences 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 in cash payments to employees
Net cash flow from financing activities	Mainly attributable to the increase in loans to meet cash flow requirements
Effect of exchange rate differences on cash	Mainly attributable to the increase 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 277 to 383, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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. 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 2011, 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
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central

Hong Kong
28 March 2012

Consolidated Statement of Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2011

	Notes	**2011** **RMB'000**	2010 RMB'000 (Restated)
REVENUE	5	**86,254,456**	69,906,686
Cost of sales		**(62,086,367)**	(48,241,770)
Gross profit		**24,168,089**	21,664,916
Other income and gains	5	**3,664,374**	2,639,807
Research and development costs		**(8,492,623)**	(7,091,971)
Selling and distribution costs		**(11,112,176)**	(8,890,214)
Administrative expenses		**(2,605,579)**	(2,524,001)
Other expenses		**(1,684,091)**	(753,907)
Finance costs	7	**(1,374,163)**	(728,552)
Share of profits and losses of:			
Jointly-controlled entities		**440**	—
Associates		**70,865**	44,123
PROFIT BEFORE TAX	6	**2,635,136**	4,360,201
Income tax expense	10	**(392,043)**	(883,719)
PROFIT FOR THE YEAR		**2,243,093**	3,476,482
Attributable to:			
Owners of the parent	11	**2,060,166**	3,250,247
Non-controlling interests		**182,927**	226,235
		2,243,093	3,476,482
OTHER COMPREHENSIVE INCOME			
Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the year		**(4,120)**	**—**
Exchange differences on translation of foreign operations		**(346,067)**	41,399
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(350,187)**	41,399
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,892,906**	3,517,881
Attributable to:			
Owners of the parent		**1,697,115**	3,301,525
Non-controlling interests		**195,791**	216,356
		1,892,906	3,517,881
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB0.61**	RMB0.98
Diluted		**RMB0.61**	RMB0.96

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 2011

	Notes	**2011 RMB'000**	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**8,646,027**	7,720,276
Prepaid land lease payments	16	**862,030**	758,805
Intangible assets	17	**2,239,648**	1,582,564
Long term prepayments and deposits	18	**691,240**	—
Investment in jointly-controlled entities	20	**46,195**	2,255
Investments in associates	21	**467,896**	915,734
Available-for-sale investments	22	**819,972**	342,706
Long-term trade receivables	25	**864,274**	567,444
Factored long-term trade receivables	26	**4,156,083**	4,972,718
Deferred tax assets	38	**1,128,836**	655,245
Pledged deposits	30	**949,666**	1,090,086
Total non-current assets		**20,871,867**	18,607,833
CURRENT ASSETS			
Prepaid land lease payments	16	**18,878**	16,425
Inventories	23	**14,988,379**	12,103,670
Amount due from customers for contract works	24	**14,588,455**	14,208,039
Trade and bills receivables	25	**27,096,954**	18,853,802
Factored trade receivables	26	**3,623,096**	3,016,569
Prepayments, deposits and other receivables	27	**5,028,840**	3,196,314
Equity investment at fair value through profit or loss	28	**87,180**	—
Derivative financial instruments	29	**8,438**	123,365
Pledged deposits	30	**724,878**	407,009
Time deposits with original maturity of over three months	30	**85,000**	71,099
Cash and cash equivalents	30	**20,662,089**	14,905,099
Total current assets		**86,912,187**	66,901,391
CURRENT LIABILITIES			
Trade and bills payables	31	**32,692,252**	25,497,683
Amount due to customers for contract works	24	**3,068,804**	2,772,669
Other payables and accruals	32	**13,407,890**	9,320,689
Derivative financial instruments	29	**5,305**	40,139
Interest-bearing bank borrowings	33	**11,876,448**	7,901,230
Bank advances on factored trade receivables	26	**3,789,731**	3,016,569
Tax payable		**880,275**	885,728
Dividends payable		**170,046**	136,302
Total current liabilities		**65,890,751**	49,571,009
NET CURRENT ASSETS		**21,021,436**	17,330,382
TOTAL ASSETS LESS CURRENT LIABILITIES		**41,893,303**	35,938,215

continued/...

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**41,893,303**	35,938,215
NON-CURRENT LIABILITIES			
Derivative financial instruments	29	**1,248**	—
Bonds cum warrants	34	**3,884,198**	3,755,790
Interest-bearing bank borrowings	33	**6,940,702**	1,719,310
Bank advances on factored long-term trade receivables	26	**4,156,083**	4,972,718
Financial guarantee contract	45	**3,689**	3,689
Deferred tax liabilities	38	**—**	89,167
Provision for retirement benefits	35	**48,716**	43,332
Other long-term payables	36	**569,892**	392,211
Total non-current liabilities		**15,604,528**	10,976,217
Net assets		**26,288,775**	24,961,998
EQUITY			
Equity attributable to owners of the parent			
Issued capital	39	**3,440,078**	2,866,732
Shares subject to lock-up under the Share Incentive Scheme	42	**(40,537)**	(276,266)
Reserves	41(a)	**20,145,986**	19,662,109
Proposed final dividend	12	**686,190**	841,297
		24,231,717	23,093,872
Non-controlling interests		**2,057,058**	1,868,126
Total equity		**26,288,775**	24,961,998

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2011

		Attributable to owners of the parent											
	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	Non-controlling interests RMB'000	Total equity 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:	40												
– 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		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

continued/...

Consolidated Statement of Changes in Equity (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2011

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve 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	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011		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
Profit for the year		–	–	–	–	–	–	–	2,060,166	–	2,060,166	182,927	2,243,093
Other comprehensive income for the year:													
Cash flow hedges, net of tax		–	–	(4,120)	–	–	–	–	–	–	(4,120)	–	(4,120)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(358,931)	–	–	(358,931)	12,864	(346,067)
Total comprehensive income for the year		–	–	(4,120)	–	–	–	(358,931)	2,060,166	–	1,697,115	195,791	1,892,906
Disposal of a subsidiary	43	–	–	–	–	–	–	–	–	–	–	95,703	95,703
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(111,273)	(111,273)
Capital contributions by non-controlling shareholders		–	4,477	–	–	–	–	–	–	–	4,477	8,711	13,188
Final 2010 dividend declared		–	–	–	–	–	–	–	–	(841,297)	(841,297)	–	(841,297)
Share Incentive Scheme:	40												
– Equity-settled share expense		–	–	–	41,821	–	–	–	–	–	41,821	–	41,821
– Unlocking the lock-up shares		–	491,539	–	(491,539)	235,729	–	–	–	–	235,729	–	235,729
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(686,190)	686,190	–	–	–
Transfer from capital reserve	39	573,346	(573,346)	–	–	–	–	–	–	–	–	–	
Transfer from retained profits		–	–	–	–	–	50,379	–	(50,379)	–	–	–	–
At 31 December 2011		3,440,078	8,531,425*	(4,120)*	12,502*	(40,537)	1,587,891*	(527,696)*	10,545,984*	686,190	24,231,717	2,057,058	26,288,775

* These reserve accounts comprise the consolidated reserves of approximately RMB20,145,986,000 (2010: RMB19,662,109,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,635,136**	4,360,201
Adjustments for:			
Finance costs	7	**1,374,163**	728,552
Share of profits and losses of jointly-controlled entities		**(440)**	—
Share of profits and losses of associates		**(70,865)**	(44,123)
Bank and other interest income	5	**(283,618)**	(101,020)
Dividend income	5	**(11,061)**	(6,023)
Loss on disposal of items of property, plant and equipment	6	**30,629**	24,094
Loss on disposal of a subsidiary	6	**18,801**	—
Gain on disposal of financial assets available for sale	6	**(5,931)**	—
Fair value loss on equity investment held for trading	6	**10,815**	—
Fair value loss/(gain) on derivative instruments — transactions not qualifying as hedges	6	**77,860**	(83,598)
Gain on disposal of derivative financial instruments	5	**(128,550)**	(6,699)
Gain on investment in Nationz Technologies Inc.	5	**(866,503)**	(440,318)
Depreciation	15	**1,026,399**	867,580
Recognition of prepaid land lease payments	16	**16,983**	11,811
Amortisation of intangible assets	17	**380,787**	191,693
Write-down/(reversal of write-down) of inventories to net realisable value	6	**370,150**	(27,709)
Impairment of trade receivables	6	**576,537**	342,972
Equity-settled share expense	6	**41,821**	158,957
		5,193,113	5,976,370
Increase in inventories		**(3,275,039)**	(2,751,161)
Increase in the amount due from customers for contract works		**(380,416)**	(2,819,543)
Increase in trade and bills receivables		**(8,827,680)**	(3,114,689)
Increase in long-term trade receivables		**(291,074)**	(167,453)
(Increase)/decrease in factored trade receivables		**210,108**	(2,150,437)
Increase in prepayments, deposits and other receivables		**(1,398,904)**	(487,716)
Increase in trade and bills payables		**7,622,875**	3,265,269
Increase in the amount due to customers for contract works		**296,135**	252,963
Increase/(decrease) in other payables and accruals		**(35,559)**	2,364,185
Increase in provision for retirement benefits		**5,384**	5,304
Increase/(decrease) in bank advances on factored trade receivables		**(43,473)**	2,150,437
Cash generated from operations		**(924,530)**	2,523,529

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Cash generated from operations		**(924,530)**	2,523,529
Interest received		**263,918**	99,652
Interest and other finance costs paid		**(1,115,655)**	(622,790)
Hong Kong profits tax paid		**(3,883)**	(599)
PRC taxes paid		**(783,074)**	(872,859)
Overseas taxes paid		**(173,297)**	(268,964)
Dividends paid		**(841,297)**	(560,361)
Dividends paid to non-controlling shareholders		**(77,529)**	(69,798)
Net cash flows from operating activities		**(3,655,347)**	227,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(124,583)**	(272,290)
Purchases of items of property, plant and equipment		**(2,548,487)**	(1,898,014)
Purchase of intangible assets		**(1,391,966)**	(896,860)
Proceeds from disposal of items of property, plant and equipment		**88,693**	29,480
Proceeds from disposal of prepaid land lease payments		**1,922**	—
Acquisition of a jointly-controlled entity		**(43,500)**	—
Capital contribution in associates		**(27,634)**	(3,674)
Purchases of available-for-sale investments		**(507,316)**	(86,028)
Proceeds from disposal of investment in Nationz Technologies Inc		**1,317,428**	—
Addition to other receivables		**(375,520)**	—
Disposal of a subsidiary	43	**51,410**	—
Dividend received from associates		**12,935**	4,279
Dividend received from available-for-sale investments		**—**	6,023
Proceeds from settlement of derivative financial instruments		**127,912**	6,699
Increase in time deposits with original maturity over three months		**(13,901)**	(71,099)
Increase in pledged bank deposits		**(177,449)**	(467,750)
Net cash flows used in investing activities		**(3,610,056)**	(3,649,234)

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Net cash flows used in investing activities		**(3,610,056)**	(3,649,234)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	3,196,764
Capital contribution by non-controlling shareholders		**7,137**	716,255
Acquisition of non-controlling interests		**—**	(2,200)
New bank loans		**34,945,347**	11,946,153
Repayment of bank loans		**(21,517,594)**	(11,568,474)
Net cash flows from financing activities		**13,434,890**	4,288,498
NET INCREASE IN CASH AND CASH EQUIVALENTS		**6,169,487**	867,074
Cash and cash equivalents at beginning of year		**14,905,099**	14,075,822
Effect of foreign exchange rate changes, net		**(412,497)**	(37,797)
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	**20,662,089**	14,905,099
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	30	**18,646,944**	14,643,292
Time deposits with original maturity of less than three months	30	**2,015,145**	261,807
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**20,662,089**	14,905,099

continued/...

Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
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	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,560,786**	5,050,802
Prepaid land lease payments	16	**405,406**	414,036
Intangible assets	17	**800,989**	420,354
Long term prepayments and deposits	18	**540,278**	—
Interests in subsidiaries	19	**7,248,807**	3,471,441
Investments in a jointly-controlled entity	20	**43,940**	—
Investments in associates	21	**295,150**	767,446
Available-for-sale investments	22	**212,448**	244,448
Long-term trade receivables	25	**769,914**	497,521
Factored long-term trade receivables	26	**4,059,772**	5,097,718
Deferred tax assets	38	**622,619**	447,416
Pledged deposits	30	**949,666**	1,090,086
Total non-current assets		**21,509,775**	17,501,268
CURRENT ASSETS			
Prepaid land lease payments	16	**9,309**	9,296
Inventories	23	**8,634,564**	5,501,368
Amount due from customers for contract works	24	**12,171,992**	12,668,254
Trade and bills receivables	25	**36,128,157**	25,482,748
Factored trade receivables	26	**3,306,558**	2,864,307
Prepayments, deposits and other receivables	27	**9,583,862**	7,168,684
Equity investment at fair value through profit or loss	28	**87,180**	—
Derivative financial instruments	29	**—**	23,984
Pledged deposits	30	**298,444**	185,710
Cash and cash equivalents	30	**13,276,734**	9,505,157
Total current assets		**83,496,800**	63,409,508
CURRENT LIABILITIES			
Trade and bills payables	31	**43,901,916**	34,951,859
Amount due to customers for contract works	24	**2,401,582**	1,703,293
Other payables and accruals	32	**23,095,349**	10,763,241
Interest-bearing bank borrowings	33	**7,229,127**	5,253,567
Bank advances on factored trade receivables	26	**3,473,193**	2,864,307
Tax payable		**392,721**	425,352
Dividends payable		**128**	97
Total current liabilities		**80,494,016**	55,961,716
NET CURRENT ASSETS		**3,002,784**	7,447,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,512,559**	24,949,060

continued/...

Statement of Financial Position (continued)

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	Notes	**2011 RMB'000**	2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,512,559**	24,949,060
NON-CURRENT LIABILITIES			
Bonds cum warrants	34	**3,884,198**	3,755,790
Interest-bearing bank borrowings	33	**1,130,090**	728,497
Bank advances on factored long-term trade receivables	24	**4,059,772**	5,097,718
Financial guarantee contract	45	**3,689**	3,689
Deferred tax liabilities	38	**—**	66,048
Provision for retirement benefits	35	**48,716**	43,332
Other long-term payables	36	**569,892**	392,211
Total non-current liabilities		**9,696,357**	10,087,285
Net assets		**14,816,202**	14,861,775
EQUITY			
Issued capital	39	**3,440,078**	2,866,732
Shares subject to lock-up under the Share Incentive Scheme	42	**(40,537)**	(276,266)
Reserves	41(b)	**10,730,471**	11,430,012
Proposed final dividend	12	**686,190**	841,297
Total equity		**14,816,202**	14,861,775

Hou Weigui
Director

Shi Lirong
Director

Notes to Financial Statements

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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 and certain equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

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2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

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 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 49 to the consolidated financial statements.

Notes to Financial Statements

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2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) **Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:**

- HKFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

Notes to Financial Statements

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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 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*[1]
HKFRS 7 Amendments	*Amendments to* HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	*Amendments to* HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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)
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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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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.

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

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.

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 identifiable net 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.

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.

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

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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 is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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 depreciates them accordingly.

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 estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, equity investment at fair value through profit or loss and derivative financial instruments.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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, in rare circumstances, 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. 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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

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 income statement in finance costs for loans and in other expenses for receivables.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. 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 income in the income statement. The loss arising from impairment is recognised in profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

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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 from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

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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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 plus, 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 and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. 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.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss in other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss in other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss in other expenses.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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 finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

- when 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

(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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 40.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing 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 arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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.

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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.

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.

Notes to Financial Statements

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3. 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 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.

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 *Revenue*, 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.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. 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 subsidiaries and that the subsidiaries will not make any profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred income tax liability. More details are set out in note 38.

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 described below.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment as at 31 December 2011 was approximately RMB8,646,027,000 (2010: RMB7,720,276,000). The carrying amount of intangible assets as at 31 December 2011 was RMB2,239,648,000 (2010: RMB1,582,564,000). 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 comparing the fair value less costs to sell and the expected 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 2011 was RMB27,961,228,000 approximately (2010: RMB19,421,246,000).

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.

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 2011 was RMB482,340,000 (2010: RMB180,796,000). The amount of unrecognised tax losses at 31 December 2011 was RMB1,889,499,000 (2010: RMB531,874,000). Further details are contained in note 38 to the financial statements.

Deferred development costs

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2011, the best estimate of the carrying amount of capitalised development costs was RMB1,925,610,000 (2010: RMB1,466,504,000).

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories based on the lower of cost and market

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow — moving items by using the lower of cost and net realisable value rule. The company reassesses the estimation of the allowance to reduce the valuation of inventories to net realisable value item by item at the end of each reporting period. At 31 December 2011, the carrying amount of inventories was RMB14,988,379,000 (2010: RMB12,103,670,000).

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.

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2011	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	46,522,048	–	9,129,909	55,651,957
Sale of goods and services	–	26,933,508	3,668,991	30,602,499
	46,522,048	26,933,508	12,798,900	86,254,456
Segment results	11,519,506	212,726	1,948,736	13,680,968
Bank and other interest income				283,618
Dividend income and unallocated gains				3,380,756
Corporate and other unallocated expenses				(13,407,348)
Finance costs				(1,374,163)
Share of profits and losses of associates and jointly-controlled entities				71,305
Profit before tax				2,635,136
Segment assets	40,918,534	13,141,415	11,257,292	65,317,241
Investment in associates				467,896
Investment in jointly-controlled entities				46,195
Corporate and other unallocated assets				41,952,722
Total assets				107,784,054
Segment liabilities	9,964,112	767,660	2,741,274	13,473,046
Corporate and other unallocated liabilities				68,022,233
Total liabilities				81,495,279
Other segment information:				
Impairment losses recognised in profit or loss	510,603	295,609	140,475	946,687
Depreciation and amortisation	768,137	444,706	211,325	1,424,168
Capital expenditure*	2,072,898	1,200,085	570,284	3,843,267

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010 (Restated)	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	41,976,345	—	6,864,654	48,840,999
Sale of goods and services	—	17,646,398	3,419,289	21,065,687
	41,976,345	17,646,398	10,283,943	69,906,686
Segment results	10,390,586	941,051	1,693,166	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

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011 **RMB'000**	2010 RMB'000 (Restated)
The PRC (place of domicile)	**39,496,611**	32,197,530
Asia (excluding the PRC)	**15,633,325**	12,687,912
Africa	**10,677,523**	10,639,010
Europe, Americas and Oceania	**20,446,997**	14,382,234
	86,254,456	69,906,686

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2011 **RMB'000**	2010 RMB'000
The PRC (place of domicile)	**9,519,671**	7,576,126
Asia (excluding the PRC)	**1,000,455**	818,727
Africa	**391,603**	1,596,516
Europe, Americas and Oceania	**835,976**	70,276
	11,747,705	10,061,645

The non-current asset information from continuing operations above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue in telecommunications systems contract and terminal from one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2011 in the amount of RMB9,376 million (2010: two customers accounted for more than 10% of the group's consolidated revenue which is amounted to RMB19,006 million).

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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:

	2011	2010
	RMB'000	RMB'000
		(Restated)
Revenue		
Telecommunications system contracts	**55,651,957**	48,840,999
Sale of goods	**26,933,508**	17,646,398
Sale of services	**3,668,991**	3,419,289
	86,254,456	69,906,686
Other income		
VAT refunds and other tax subsidies#	**1,910,186**	1,530,782
Dividend income	**11,061**	6,023
Bank and other interest income	**283,618**	101,020
Others##	**458,525**	471,367
	2,663,390	2,109,192
Gains		
Gain on investment in Nationz Technologies Inc	**866,503**	440,318
Gain on disposal of financial assets available for sale	**5,931**	—
Gain on disposal of derivative financial instruments	**128,550**	6,699
Fair value gains on derivative financial instruments not qualifying as hedges	**—**	83,598
	1,000,984	530,615
	3,664,374	2,639,807

\# Refund of VAT on software products represent 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 of the Group, 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 other miscellaneous incomes.

Notes to Financial Statements

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
Cost of goods and services		**52,185,748**	44,489,594
Depreciation	15	**1,026,399**	867,580
Amortisation of land lease payments	16	**16,983**	11,811
Amortisation of intangible assets	17	**380,787**	191,693
Research and development cost:			
Total research and development cost		**9,210,859**	7,928,625
Less: Deferred development cost		**(718,236)**	(836,654)
		8,492,623	7,091,971
Fair value (gains)/losses, net*:			
Derivative instruments — transactions not qualifying as hedges	29	**77,860**	(83,598)
Equity investments held for trading		**10,815**	—
Impairment of trade receivables*	25	**576,537**	342,972
Provision for warranties	37	**516,152**	291,939
Write-down/(reversal of write-down) of inventories to net realisable value**		**370,150**	(27,709)
Minimum lease payments under operating leases on land and buildings		**509,877**	476,925
Contingent rental income in respect of operating leases	47(a)	**(89,219)**	(25,810)
Auditors' remuneration		**7,292**	6,991
Staff costs (including directors' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**11,465,702**	9,983,311
Equity-settled share expense		**41,821**	158,957
Retirement benefit scheme contributions:			
Defined benefit pension scheme	35	**6,352**	6,303
Defined contribution pension scheme		**730,096**	571,304
		12,243,971	10,719,875

Notes to Financial Statements

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6. PROFIT BEFORE TAX (continued)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Foreign exchange loss*		**836,993**	179,428
Loss on disposal of items of property, plant and equipment*		**30,629**	24,094
Gain on disposal of Nationz Technologies Inc		**(866,503)**	(440,318)
Loss on disposal of a subsidiary*	43	**18,801**	—
Gain on disposal of available for sale investments		**(5,931)**	—

* The fair value losses, impairment of trade receivables, foreign exchange loss, loss on disposal of items of property, plant and equipment and loss on disposal of a subsidiary are included in "Other expenses" on the face of the consolidated statement of comprehensive income.

** 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.

7. FINANCE COSTS

An analysis of finance costs is as follows:

		Group	
	Notes	2011 RMB'000	2010 RMB'000
Interest on bank loans wholly repayable within five years		**691,954**	233,209
Interest on bonds cum warrants	34	**160,408**	155,109
Total interest expense on financial liabilities not at fair value through profit or loss		**852,362**	388,318
Other finance costs:			
Finance costs on trade receivables factored and bills discounted		**521,801**	340,234
		1,374,163	728,552

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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	
	2011	2010
	RMB'000	RMB'000
Fees	**–**	–
Other emoluments of directors and supervisors:		
Salaries, bonuses, allowances and welfare	**4,144**	4,314
Performance related bonuses*	**6,127**	7,439
Equity-settled share expense	**30**	261
Retirement benefit scheme contributions	**110**	143
	10,411	12,157

* 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:

	2011	2010
	RMB'000	RMB'000
Mi Zhengkun	**–**	17
Li Jin	**–**	44
Qu Xiaohui	**130**	120
Wei Wei	**130**	120
Tan Zhenhui	**130**	103
Timothy Alexander Steinert	**130**	76
Chen Naiwei	**130**	120
	650	600

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2011						
Executive directors:						
Yin Yimin	—	374	—	—	16	390
Shi Lirong	—	559	2,464	—	16	3,039
He Shiyou	—	547	935	—	30	1,512
	—	1,480	3,399	—	62	4,941
Non-executive directors:						
Hou Weigui	—	327	824	—	—	1,151
Xie Weiliang	—	100	—	7	—	107
Zhang Junchao	—	100	—	7	—	107
Lei Fanpei	—	100	—	—	—	100
Wang Zhanchen	—	100	—	—	—	100
Dong Lianbo	—	100	—	7	—	107
	—	827	824	21	—	1,672
	—	2,307	4,223	21	62	6,613
Supervisors:						
Zhang Taifeng	—	327	824	—	—	1,151
He Xuemei	—	251	366	—	16	633
Zhou Huidong	—	289	384	9	16	698
Wang Yan	—	—	—	—	—	—
Xu Weiyan	—	320	330	—	16	666
	—	1,187	1,904	9	48	3,148
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
	—	819	967	165	—	1,951
	—	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

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2010: Nil) director or supervisor, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2010: five) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**13,336**	11,298
Performance related bonuses	**8,872**	6,344
Retirement benefit scheme contributions	**—**	2,845
	22,208	20,487

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

	Number of employees	
	2011	2010
RMB3,000,001 to RMB4,000,000	**3**	4
RMB4,000,001 to RMB5,000,000	**1**	—
RMB5,000,001 to RMB6,000,000	**—**	—
RMB6,000,001 to RMB7,000,000	**—**	1
RMB7,000,001 to RMB8,000,000	**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

	2011	2010
	RMB'000	RMB'000
Group:		
Current — Hong Kong	**2,974**	2,347
Current — Mainland China	**799,675**	778,452
Current — Overseas	**152,152**	29,004
Deferred (note 38)	**(562,758)**	73,916
Total tax charge for the year	**392,043**	883,719

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10. INCOME TAX (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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 2011 to 2013.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxing New Software Company Limited, 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 third profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

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 second 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 third profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing Software Company Limited recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2009 to 2010. Shenzhen Zhongxing Software Company Limited is in the process of applying the Important Software Enterprise under the National Planning Layout for the year 2011. The enterprise income tax rate used in 2011 was 10% (2010: 10%).

ZTEsoft Technology Company Limited recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2009 to 2010. ZTEsoft Technology Company Limited is in the process of applying the Important Software Enterprise under the National Planning Layout for the year 2011. The enterprise income tax rate used in 2011 was 10% (2010: 10%).

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10. INCOME TAX (continued)

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Mobile Technology Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 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 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Lead Communication Equipment Company Limited is subject to an enterprise income tax rate of 15% from 2011 to 2013 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 2011 to 2013 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 fifth profitable year and a 50% reduction in the enterprise income tax rate of 24% is applicable. The said company was also a national-grade hi-tech enterprise for the years from 2011 to 2013.

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 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 2011 to 2013.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 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 2011 to 2013 as a national-grade hi-tech enterprise.

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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:

	2011		2010	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,635,136**		4,360,201	
Tax at the statutory tax rate	**658,784**	**25.0**	1,090,052	25.0
Lower tax rate for specific provinces or enacted by local authority	**(499,077)**	**(18.9)**	(484,618)	(11.1)
Adjustments in respect of current tax of previous periods	**44,357**	**1.7**	144,850	3.3
Profits and losses attributable to associates and jointly-controlled entities	**(12,910)**	**(0.5)**	(8,209)	(0.2)
Income not subject to tax	**(324,956)**	**(12.3)**	(281,659)	(6.5)
Expenses not deductible for tax	**198,044**	**7.5**	206,219	4.7
Tax losses utilised from previous years	**(66,310)**	**(2.5)**	(43,468)	(1.0)
Tax losses of subsidiaries not recognised	**394,111**	**15.0**	260,552	6.0
Tax charge at the Group's effective rate	**392,043**	**14.8**	883,719	20.2

The share of tax attributable to associates amounting to RMB9,656,000 (2010: RMB6,057,000) 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 2011 includes a profit of approximately RMB519,110,000 (2010: RMB302,899,000) which has been dealt with in the financial statements of the Company (note 41(b)).

12. DIVIDENDS

	2011	2010
	RMB'000	RMB'000
Proposed final — RMB0.2 (2010: RMB0.3) per ordinary share	**686,190**	841,297

Details of proposed final dividend for the year are set out in note 54. The said profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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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 3,390,411,470 (2010: 3,323,155,724) 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:

	2011	2010
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**2,060,166**	3,250,247

	Number of shares	
	2011	2010
	'000	'000
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation#	**3,390,411**	3,323,156
Shares subject to lock-up under the Share Incentive Scheme##	***6,874***	74,237
Adjusted weighted average number of ordinary shares in issue	**3,397,285**	3,397,393

\# During the year, 9,125,893 shares subjected to lock-up under the Share Incentive Scheme (note 42) are excluded from the calculation of basic earnings per share.

\## 2,251,699 Subject Shares to be lapsed are excluded from 9,125,893 unlocking Subject Shares when calculating diluted earnings per share.

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.

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15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Lands and 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 2011						
At 31 December 2010 and at 1 January 2011:						
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**
At 1 January 2011, net of accumulated depreciation and impairment	**3,321,490**	**45,444**	**3,001,780**	**204,823**	**1,146,739**	**7,720,276**
Additions	**207,507**	**62,030**	**1,016,450**	**57,184**	**1,307,802**	**2,650,973**
Disposals	**(10,619)**	**(29,177)**	**(544,751)**	**(17,685)**	**—**	**(602,232)**
Depreciation provided during the year	**(118,380)**	**(34,405)**	**(839,158)**	**(34,456)**	**—**	**(1,026,399)**
Transfers	**449,478**	**—**	**417,577**	**—**	**(867,055)**	**—**
Exchange realignments	**(18,981)**	**(3,226)**	**(65,073)**	**(2,287)**	**(7,024)**	**(96,591)**
At 31 December 2011, net of accumulated depreciation and impairment	**3,830,495**	**40,666**	**2,986,825**	**207,579**	**1,580,462**	**8,646,027**
At 31 December 2011:						
Cost	**4,318,775**	**106,911**	**6,064,536**	**353,636**	**1,580,462**	**12,424,320**
Accumulated depreciation and impairment	**(488,280)**	**(66,245)**	**(3,077,711)**	**(146,057)**	**—**	**(3,778,293)**
Net carrying amount	**3,830,495**	**40,666**	**2,986,825**	**207,579**	**1,580,462**	**8,646,027**

	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

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Company Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
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**
At 1 January 2011, net of accumulated depreciation and impairment	**2,575,163**	**8,224**	**1,535,410**	**135,090**	**796,915**	**5,050,802**
Additions	**—**	**—**	**739,496**	**47,759**	**425,535**	**1,212,790**
Disposals	**—**	**—**	**(34,407)**	**(6,936)**	**—**	**(41,343)**
Transfers to subsidiaries	**—**	**—**	**(42,070)**	**—**	**—**	**(42,070)**
Depreciation provided during the year	**(93,948)**	**(5,394)**	**(498,173)**	**(21,878)**	**—**	**(619,393)**
Transfers	**331,000**	**—**	**151,901**	**—**	**(482,901)**	**—**
At 31 December 2011, net of accumulated depreciation and impairment	**2,812,215**	**2,830**	**1,852,157**	**154,035**	**739,549**	**5,560,786**
At 31 December 2011:						
Cost	**3,246,435**	**30,935**	**3,543,348**	**258,415**	**739,549**	**7,818,682**
Accumulated depreciation and impairment	**(434,220)**	**(28,105)**	**(1,691,191)**	**(104,380)**	**—**	**(2,257,896)**
Net carrying amount	**2,812,215**	**2,830**	**1,852,157**	**154,035**	**739,549**	**5,560,786**

	Buildings RMB'000	Leasehold improvements RMB'000	Company 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

As at 31 December 2011, no houses and buildings were pledged as security for the preservation of properties subject to legal proceedings (2010: nil). Two subsidiaries of the Group pledged real estate properties with a total book value of RMB6,800,000 (2010: RMB3,916,000) and machinery equipment with a book value of RMB91,395,000 (2010: RMB370,285,000), as security for long-term loans (note 33).

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2011, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Xi'an, and Hefei, the PRC, with net carrying value of approximately RMB1,253,597,000 (2010: RMB1,078,387,000), RMB1,257,280,000 (2010: RMB962,421,000), RMB346,728,000 (2010: RMB358,857,000), RMB209,667,000 (2010: RMB163,694,000) and RMB5,745,000 (2010: Nil) respectively.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**775,230**	514,751
Additions during the year	**124,583**	272,290
Disposals	**(1,922)**	—
Recognised during the year	**(16,983)**	(11,811)
Carrying amount at 31 December	**880,908**	775,230
Current portion	**(18,878)**	(16,425)
Non-current portion	**862,030**	758,805

All the leasehold lands are held under medium term leases and are situated in Mainland China.

	Company	
	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**423,332**	432,628
Additions during the year	**2,567**	—
Disposals	**(1,922)**	—
Recognised during the year	**(9,262)**	(9,296)
Carrying amount at 31 December	**414,715**	423,332
Current portion	**(9,309)**	(9,296)
Non-current portion	**405,406**	414,036

All the leasehold lands are held under medium term leases and are situated in Mainland China.

As at 31 December 2011, the Group was in the process of obtaining the land use right certificates for land located in Shenzhen, Sanya, Nanjing, the PRC, with an aggregate net carrying value of approximately RMB469,647,000 (2010: RMB497,717,000).

As at 31 December 2011, a subsidiary of the Group pledged its land use right with a net carrying value of RMB3,681,000 (2010: RMB2,444,000) as security for a bank loan (note 33).

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17. INTANGIBLE ASSETS

	Group				
	Technology know-how RMB'000	Computer software RMB'000	Operating concession RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2011					
Cost at 1 January 2011, net of accumulated amortisation and impairment	**3,180**	**80,709**	**32,171**	**1,466,504**	**1,582,564**
Additions	**—**	**52,509**	**296,966**	**718,236**	**1,067,711**
Retirements and disposals	**(140)**	**(2,147)**	**(27,553)**	**—**	**(29,840)**
Amortisation provided during the year	**(491)**	**(31,967)**	**(89,199)**	**(259,130)**	**(380,787)**
At 31 December 2011	**2,549**	**99,104**	**212,385**	**1,925,610**	**2,239,648**
At 31 December 2011:					
Cost	**6,984**	**387,537**	**335,490**	**2,657,196**	**3,387,207**
Accumulated amortisation and impairment	**(4,435)**	**(288,433)**	**(123,105)**	**(731,586)**	**(1,147,559)**
Net carrying amount	**2,549**	**99,104**	**212,385**	**1,925,610**	**2,239,648**
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

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17. INTANGIBLE ASSETS (continued)

	Company			
	Computer software	Operating concession	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2011				
Cost at 1 January 2011, net of accumulated amortisation and impairment	**69,587**	**—**	**350,767**	**420,354**
Additions	**52,492**	**295,894**	**210,889**	**559,275**
Retirements and disposals	**(891)**	**—**	**—**	**(891)**
Amortisation provided during the year	**(30,883)**	**(85,198)**	**(61,668)**	**(177,749)**
At 31 December 2011	**90,305**	**210,696**	**499,988**	**800,989**
At 31 December 2011				
Cost	**356,875**	**295,894**	**854,417**	**1,507,186**
Accumulated amortisation and impairment	**(266,570)**	**(85,198)**	**(354,429)**	**(706,197)**
Net carrying amount	**90,305**	**210,696**	**499,988**	**800,989**
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

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18. LONG-TERM PREPAYMENTS AND DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits for purchase of property, plant and equipment	**161,722**	—	**161,722**	—
Upfront fee	**529,518**	—	**378,556**	—
	691,240	—	**540,278**	—

19. INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**4,481,184**	2,807,398
Less: Impairment#	**(96,215)**	(100,748)
Loans to subsidiaries	**2,863,838**	764,791
	7,248,807	3,471,441

An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB514,760,000 (before deducting the impairment loss) (2010: RMB474,340,000) because the respective subsidiaries were loss making.

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 25, 27, 31 and 32 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.

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19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited[#(i)] (深圳市中興康訊電子有限公司)	The PRC/ Mainland China	RMB1,950,000,000	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	RMB202,000,000	75	—	Sale and development of business operation support systems
Zhongxing Software Company Limited ("Zhongxing Software")[#(ii)] (深圳市中興軟件有限責任公司)	The PRC/ Mainland China	RMB52,080,000	74	24	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
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 sale of corporate management hard/ software products

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19. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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	9	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
ZTE Group Finance Company Limited#(i) (中興通訊集團財務有限公司)	The PRC/ Mainland China	RMB1,000,000,000	100	—	Financing and consulting

(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 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.

20. INVESTMENT IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investment, at cost	**—**	—	**43,940**	—
Share of net assets	**18,891**	2,255	**—**	—
Goodwill on acquisition	**27,304**	—	**—**	—
	46,195	2,255	**43,940**	—

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20. INVESTMENT IN JOINTLY-CONTROLLED ENTITIES (continued)

The Group's balances of trade receivables with jointly-controlled entities are disclosed in notes 25 to the financial statements. The amounts due from jointly-controlled entities are unsecured and interest-free.

Particulars of the jointly-controlled entities 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
Puxing Mobile Tech Company Limited# (普興移動通訊設備有限公司)	The PRC/ Mainland China	RMB128,500,000	34	50	50	Provision of telecommunications solutions and related consultancy services

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

The investment in Bestel is held by a wholly-owned subsidiary of the Company. There was no operating activity in 2011.

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

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entities' assets and liabilities		
Assets	**152,652**	2,303
Liabilities	**133,761**	(48)
Net assets	**18,891**	2,255
Share of the jointly-controlled entities' results		
Revenue	**218,339**	—
Profit before tax	**440**	—
Tax	**—**	—
Profit after tax	**440**	—

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21. INTERESTS IN ASSOCIATES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**—**	—	**304,924**	777,220
Share of net assets	**467,896**	915,734	**—**	—
	467,896	915,734	**304,924**	777,220
Provision for impairment	**—**	—	**(9,774)**	(9,774)
	467,896	915,734	**295,150**	767,446

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 25 and 31 to the financial statements, respectively.

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
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	40**	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	42.64**	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
Shenzhen Jufei Optoelectronics Co., Ltd. ("Jufei")#* (深圳市聚飛光電股份有限公司)	The PRC/ Mainland China	RMB59,540,000	21.62**	Development, manufacture and sale of telecommunications related components

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

* Not audited by Ernst & Young, Hong Kong or 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.

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21. INTERESTS IN ASSOCIATES (CONTINUED)

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

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

The Group has discontinued the recognition of its share of losses of certain associates because the share of losses of the associate exceeded the Group's interest in the associate. The amounts of the Group's unrecognized share of losses of these associates for the current year and cumulatively were RMB899,000 (2010: RMB357,000) and RMB19,835,000 (2010: RMB18,936,000).

All the above associates have been accounted for using the equity method in these financial statements.

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

	2011	2010
	RMB'000	RMB'000
Assets	**3,996,707**	5,081,239
Liabilities	**1,874,267**	907,601
Revenues	**1,819,101**	2,062,100
Profit	**287,294**	195,290

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**819,972**	342,706	**212,448**	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 2011, the above unlisted equity investments with a carrying amount of RMB819,972,000 (2010: RMB342,706,000) 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.

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23. INVENTORIES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**3,987,559**	3,578,897	**1,588,199**	1,035,430
Work in progress	**1,570,680**	1,252,414	**833,901**	531,915
Finished goods	**3,379,872**	2,530,441	**1,210,817**	508,235
Contract works in progress	**6,050,268**	4,741,918	**5,001,647**	3,425,788
	14,988,379	12,103,670	**8,634,564**	5,501,368

24. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**14,588,455**	14,208,039	**12,171,992**	12,668,254
Amount due to customers for contract works	**(3,068,804)**	(2,772,669)	**(2,401,582)**	(1,703,293)
	11,519,651	11,435,370	**9,770,410**	10,964,961
Contract costs incurred plus recognised profits less recognised losses to date	**42,320,381**	46,544,057	**32,701,517**	40,889,161
Less: Progress billings	**(30,800,730)**	(35,108,687)	**(22,931,107)**	(29,924,200)
	11,519,651	11,435,370	**9,770,410**	10,964,961

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**30,643,306**	21,604,193	**38,977,582**	27,690,234
Impairment	**(2,682,078)**	(2,182,947)	**(2,079,511)**	(1,709,965)
	27,961,228	19,421,246	**36,898,071**	25,980,269
Current portion	**(27,096,954)**	(18,853,802)	**(36,128,157)**	(25,482,748)
Long-term portion	**864,274**	567,444	**769,914**	497,521

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25. 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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**24,390,814**	15,933,535	**25,667,698**	16,780,050
7 to 12 months	**2,296,520**	2,563,041	**4,292,698**	3,732,292
1 to 2 years	**1,174,085**	877,934	**3,188,689**	2,328,878
2 to 3 years	**99,809**	46,736	**1,281,835**	1,809,245
Over 3 years	**—**	—	**2,467,151**	1,329,804
	27,961,228	19,421,246	**36,898,071**	25,980,269
Current portion of trade and bills receivables	**(27,096,954)**	(18,853,802)	**(36,128,157)**	(25,482,748)
Long-term portion	**864,274**	567,444	**769,914**	497,521

The movements in the provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**2,182,947**	1,854,947	**1,709,965**	1,459,189
Impairment losses recognised (note 6)	**618,479**	375,612	**388,701**	267,507
Amount write off as uncollectible	**(77,406)**	(14,972)	**(13,400)**	(489)
Impairment losses reversed (note 6)	**(41,942)**	(32,640)	**(5,755)**	(16,242)
At 31 December	**2,682,078**	2,182,947	**2,079,511**	1,709,965

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

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB673,371,000 (2010: RMB616,067,000) with a carrying amount before provision of RMB673,371,000 (2010: RMB616,067,000). 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. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**5,746,119**	3,839,776	**9,241,251**	4,573,317
Less than one year past due	**19,420,846**	13,406,522	**19,407,690**	15,538,415
	25,166,965	17,246,298	**28,648,941**	20,111,732

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 balances due from subsidiaries, the controlling shareholder, associates and other related companies included in the above are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**18,414,733**	12,015,794
The controlling shareholder	**77**	—	**—**	—
A jointly-controlled entity	**88,966**	—	**88,966**	—
Associates	**1,652**	3,977	**—**	3,571
Related companies	**25,957**	7,685	**16,773**	—
	116,652	11,662	**18,520,472**	12,019,365

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

The Group and the Company have pledged trade receivables of RMB1,105,174,000 and Nil (2010: RMB2,310,844,000 and RMB2,082,346,000) to secure the bank borrowings (note 33).

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

As at 31 December 2011, the Group factored trade receivables of RMB7,779,179,000 (2010: RMB7,989,287,000) to various banks for cash and received advances on factored trade receivables RMB7,945,814,000 (2010: RMB7,989,287,000). 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 the 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 2011, under the above arrangements, accounts receivable due from the customer amounted to RMB7,643,736,000 (2010: RMB7,586,858,000) among which RMB6,114,989,000 (2010: RMB6,069,486,000) 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 RMB1,528,747,000 (2010: RMB1,517,372,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**494,200**	449,664	**22,969**	85,559
Deposits and other receivables	**4,224,883**	2,742,864	**3,125,304**	2,167,091
Due from subsidiaries	**—**	—	**2,736,934**	4,888,616
Dividends receivable	**1,500**	1,875	**3,696,751**	27,418
Interest receivable	**8,257**	1,911	**1,904**	—
Entrusted loan#	**300,000**	—	**—**	—
	5,028,840	3,196,314	**9,583,862**	7,168,684

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.

\# The trusted loan as at 31 December 2011 was fully collected on 18 January 2012.

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28. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Listed equity investment, at market value:		
Mainland China	**87,180**	—

The above equity investment as at 31 December 2011 represented the equity interests of 1.15% in Nationz Technologies, Inc. which was listed on Growth Enterprise Markets on 29 April 2010 by way of initial public offering. In May 2011 the Company was able to trade the shares in Nationz Technologies, Inc. and the management decided not to exercise significant influence over Nationz Technologies, Inc and intent to sell them in the foreseeable future, therefore the investment in Nationz Technologies, Inc has been reclassified from investments in associates to equity investment at fair value through profit or loss ever since.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**8,438**	**(2,433)**	123,365	(40,139)
Interest rate swaps	**—**	**(4,120)**	—	—
	8,438	**(6,553)**	123,365	(40,139)
Portion classified as non-current:				
Interest rate swaps	**—**	**(1,248)**	—	—
Current portion	**8,438**	**(5,305)**	123,365	(40,139)

	Company			
	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**—**	**—**	23,984	—

Forward currency contracts

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. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Losses on the fair value amounting to RMB77,860,000 (2010: gains of RMB83,597,000) were recognised in profit or loss during the year.

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29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swaps — cash flow hedges

Interest rate swaps are designated as hedging instruments in respect of expected interest payments for floating rate debts incurred by the Group.

The terms of the interest rate swaps have been negotiated to match the terms of the debts. The cash flow hedges relating to expected interest payments were assessed to be highly effective and a net loss of RMB4,120,000 was included in the hedging reserve as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Total fair value loss	**(4,120)**	—
Net loss on cash flow hedges	**(4,120)**	—

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**22,421,633**	16,473,293	**14,524,844**	10,780,953
Less:				
Pledged deposits — non-current	**(949,666)**	(1,090,086)	**(949,666)**	(1,090,086)
Pledged deposits — current	**(724,878)**	(407,009)	**(298,444)**	(185,710)
Time deposits with original maturity over three months	**(85,000)**	(71,099)	**—**	—
Cash and cash equivalents	**20,662,089**	14,905,099	**13,276,734**	9,505,157
Time deposits with original maturity of less than three months	**(2,015,145)**	(261,807)	**—**	(20,000)
Unrestricted bank balances and cash	**18,646,944**	14,643,292	**13,276,734**	9,485,157

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB12,263,372,000 (2010: RMB7,321,749,000). 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.

Pledged deposits include the deposits as at 31 December 2011 of RMB44,464,000 (2010: nil) with the People's Bank of China, at a statutory reserve of 16% (2010: nil) for RMB on customer deposits held by ZTE Group Finance Company Limited.

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30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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.

31. 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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**32,263,588**	25,302,896	**43,665,761**	34,916,850
7 to 12 months	**299,452**	34,558	**217,409**	5,260
1 to 2 years	**87,206**	104,584	**3,992**	4,695
2 to 3 years	**13,278**	22,766	**1,101**	224
Over 3 years	**28,728**	32,879	**13,653**	24,830
	32,692,252	25,497,683	**43,901,916**	34,951,859

The balances due to subsidiaries, the controlling shareholder, related companies and associates included in the above are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**28,663,445**	23,143,813
The controlling shareholder	**70,404**	152,772	**—**	—
Related companies	**88,159**	122,967	**79**	79
Associates	**154,025**	69,613	**—**	—
	312,588	345,352	**28,663,524**	23,143,892

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.

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32. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2011** RMB'000	2010 RMB'000 (Restated)	**2011** RMB'000	2010 RMB'000 (Restated)
Receipts in advance		**2,458,428**	2,744,694	**1,608,213**	2,110,666
Other payables		**7,660,950**	2,497,097	**8,312,110**	2,206,629
Factoring costs payable		**101,759**	112,169	**101,759**	112,169
Advance receipts for staff housing scheme		**464,800**	680,000	**464,800**	680,000
Accruals		**2,371,621**	3,068,056	**1,087,982**	1,161,186
Provision for warranties	37	**347,610**	215,076	**209,246**	77,606
Due to the controlling shareholder		**2,363**	3,371	**—**	308
Due to subsidiaries		**—**	—	**11,310,674**	4,414,421
Due to related companies		**359**	226	**565**	256
		13,407,890	9,320,689	**23,095,349**	10,763,241

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.

33. INTEREST-BEARING BANK BORROWINGS

	2011			2010		
Group	**Effective interest rate (%)**	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**3.5-12.6**	**2012**	**4,481,762**	2.00-7.00	2011	2,868,909
Bank loans — unsecured	**Libor+0.9-5.3**	**2012**	**5,282,900**	Libor+1-2.4	2011	2,147,222
Bank loans — guaranteed			**—**	2-5.31	2011	30,000
Bank loans — secured	**3.8-10.5**	**2012**	**2,111,786**	2.7-6.116	2011	618,525
Bank loans — secured			**—**	Libor+1.5-2	2011	2,236,574
			11,876,448			7,901,230
Non-current						
Bank loans — secured	**Libor+1.5**	**2016**	**243,467**	Libor+1.5-2	2012-2016	742,670
Bank loans — guaranteed*	**Libor+1.6-1.9**	**2014-2016**	**5,560,844**			—
Bank loans — guaranteed	**3**	**2013**	**6,301**	2	2012-2015	248,143
Bank loans — unsecured	**Libor+3.8**	**2014**	**630,090**	Libor+1-2	2012	728,497
Bank loans — unsecured	**4.76**	**2013-2014**	**500,000**			—
			6,940,702			1,719,310
			18,817,150			9,620,540

* Excludes the effects of related interest rate swap as further detailed in note 29 to the financial statement.

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33. INTEREST-BEARING BANK BORROWINGS (continued)

Company	2011 Effective interest rate (%)	2011 Maturity	2011 RMB'000	2010 Effective interest rate (%)	2010 Maturity	2010 RMB'000
Current						
Bank loans — unsecured	**4.78-7.7**	**2012**	**2,320,000**	2.00-7.00	2011	1,024,000
Bank loans — unsecured	**Libor+2.0-5.25**	**2012**	**4,892,244**	Libor+1-2.4	2011	2,147,221
Bank loans — secured			**—**	Libor+1.8	2011	2,082,346
Bank loans — secured	**9**	**2012**	**16,883**			—
			7,229,127			5,253,567
Non-current						
Bank loans — unsecured	**4.76**	**2013**	**500,000**			—
Bank loans — unsecured	**Libor+3.8**	**2014**	**630,090**	Libor+1-2	2012	728,497
			1,130,090			728,497
			8,359,217			5,982,064

	Group 2011 RMB'000	Group 2010 RMB'000	Company 2011 RMB'000	Company 2010 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**11,876,448**	7,901,230	**7,229,127**	5,253,567
In the second year	**506,301**	1,129,625	**500,000**	728,497
In the third to fifth years, inclusive	**6,434,401**	333,784	**630,090**	—
Over five years	**—**	255,901	**—**	—
	18,817,150	9,620,540	**8,359,217**	5,982,064

Notes:

Except for bank loans of approximately RMB7,003,697,000 (2010: RMB3,013,854,000) which are denominated in Renminbi, all the Group's and the Company's borrowings are in United States dollars and other foreign currencies.

Except for bank loans with a carrying amount of RMB4,291,197,000 (2010: RMB3,765,577,000), all borrowings of the Group bear interest at floating interest rates.

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33. INTEREST-BEARING BANK BORROWINGS (continued)

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Real estate properties	**6,800**	3,916	**—**	—
Machinery equipment	**91,395**	370,285	**—**	—
Land use right	**3,681**	2,444	**—**	—
Pledged bank deposits	**1,630,080**	1,497,095	**1,248,110**	1,275,796
Trade receivables	**1,105,174**	2,310,844	**—**	2,082,346
	2,837,130	4,184,584	**1,248,110**	3,358,142

Certain of the Group's bank loans are guaranteed by:

	Group	
	2011	2010
	RMB'000	RMB'000
Other banks or the government	**—**	268,143
Entities within the Group	**5,567,145**	10,000
	5,567,145	278,143

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.

34. 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

	2011	2010
	RMB'000	RMB'000
Carrying amount at 1 January	**3,755,790**	3,632,681
Interest expense (note 7)	**160,408**	155,109
Interest paid	**(32,000)**	(32,000)
Carrying amount at 31 December	**3,884,198**	3,755,790

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34. BONDS CUM WARRANTS (continued)

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 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 was allocated to the detachable warrants that was assigned as the equity component and is included in shareholders' equity.

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 exercise. A total of 41,851,410 warrants were not exercised and lapsed.

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.

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35. 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 as at 31 December 2009 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

	2011	2010
	RMB'000	RMB'000
Present value of the obligations	**96,631**	93,864
Unrecognised actuarial losses	**(47,915)**	(50,532)
Net liability in the statement of financial position	**48,716**	43,332

Movements in the net liability recognised in the statement of financial position during the year are as follows:

	2011	2010
	RMB'000	RMB'000
Net liability at beginning of year	**43,332**	38,028
Benefit expenses recognised in profit or loss	**6,352**	6,303
Pension payments made	**(968)**	(999)
Net liability at end of year	**48,716**	43,332

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

	2011	2010
	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:

	2011	2010
	RMB'000	RMB'000
Interest cost on benefit obligations	**3,735**	3,649
Net actuarial losses recognised in the year	**2,617**	2,654
Benefit expense included in staff costs (note 6)	**6,352**	6,303

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36. OTHER LONG-TERM PAYABLES

Group and Company

	2011 RMB'000	2010 RMB'000
Factoring costs payable	**377,059**	392,211
Deferred income for staff housing scheme	**192,833**	—
	569,892	392,211

37. PROVISION FOR WARRANTIES

	Group		Company	
	2011 RMB'000	2010 RMB'000 (Restated)	**2011 RMB'000**	2010 RMB'000 (Restated)
At beginning of year	**215,076**	157,144	**77,606**	56,520
Additional provisions	**516,152**	291,939	**437,517**	220,055
Amounts utilised during the year	**(383,618)**	(234,007)	**(305,877)**	(198,969)
At end of year	**347,610**	215,076	**209,246**	77,606

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. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

38. DEFERRED TAX

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Deferred tax assets and liabilities:				
At beginning of year	**566,078**	639,994	**381,368**	381,394
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**562,758**	(73,916)	**241,251**	(26)
At end of year	**1,128,836**	566,078	**622,619**	381,368

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38. DEFERRED TAX (continued)

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Unrealised profits arising on consolidation	**90,557**	103,176	**—**	—
Provision against inventories	**86,465**	48,458	**25,772**	22,759
Foreseeable contract losses	**10,265**	12,231	**10,265**	12,231
Amortization of intangible assets	**36,913**	3,235	**11,335**	2,457
Provision for warranties	**51,904**	69,452	**36,170**	16,424
Provision for retirement benefits	**8,108**	6,985	**7,307**	6,500
Undeducted payables	**141,816**	—	**—**	—
Tax losses	**482,340**	180,796	**311,350**	156,133
Overseas tax	**220,468**	230,912	**220,420**	230,912
	1,128,836	655,245	**622,619**	447,416
Deferred tax liabilities:				
Gain on deemed disposal of an associate	**—**	(66,048)	**—**	(66,048)
Gain on derivative financial instrument	**—**	(23,119)	**—**	—
	—	(89,167)	**—**	(66,048)

Deferred tax assets have not been recognised in respect of the following items:

	2011	2010
	RMB'000	RMB'000
Tax losses	**1,889,499**	531,874

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2011	2010
	RMB'000	RMB'000
2011	**—**	6,044
2012	**69,995**	14,104
2013	**65,650**	3,650
After 2013	**1,753,854**	508,076
	1,889,499	531,874

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.

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38. 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% 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. A lower withholding tax rate may be applied if there is a tax treaty between mainland china and the jurisdiction of the foreign investors. Accordingly, ZTE (H.K.) Limited, a subsidiary of the Group deemed a foreign investor incorporated in Hong Kong, 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 2011, 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 2011, 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 RMB695,306,000 (2010: RMB 1,177,844,000).

39. ISSUED CAPITAL

	2011 **RMB'000**	2010 RMB'000
Restricted shares		
Domestic natural person shares	**9,126**	60,142
Senior management shares	**8,330**	6,776
	17,456	66,918
Unrestricted shares		
RMB ordinary shares	**2,793,037**	2,275,159
Overseas listed foreign shares	**629,585**	524,655
	3,422,622	2,799,814
	3,440,078	2,866,732

Pursuant to the resolution of the annual general meeting on 17 May 2011, the registered capital of the Company increased by capitalising the capital reserve fund of the Company. Bonus shares of 573,346,336 were allotted and issued to the Company's shareholders on the basis of two bonus shares for every 10 shares held by the shareholders on 7 July 2011. The registered capital of the Company increased from RMB2,866,731,684 to RMB 3,440,078,020.

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40. 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.

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;

(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.

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40. SHARE INCENTIVE SCHEME (continued)

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 Share Incentive Scheme 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 RMB41,821,000 (2010: RMB158,957,000) as the Share Incentive Scheme expenses for the year and an aggregate amount of RMB1,100,071,000 (2010: RMB1,058,250,000) 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 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 and the Second Award shall be subject to a lock-up period of two years. As at 12 March 2009 and 25 November 2010, the lock-up period for subject shares under the First Award and the Second Award had expired and the unlocking conditions had been fulfilled. For details of the unlocking, please refer to note 42.

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41. 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 280 and 281 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.

(b) Company

	Notes	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
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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		–	–	–	–	–	–	–	(7,936)	(552,425)	(560,361)
Total comprehensive income for the year		–	–	–	–	–	–	(600)	302,899	–	302,299
Proposed final 2010 dividend		–	–	–	–	–	–	–	(841,297)	841,297	–
Issue of shares		79,819	3,697,155	(580,210)	–	–	–	–	–	–	3,196,764
Share Incentive Scheme:		–									
– Equity- settled share expense		–	–	–	158,957	–	–	–	–	–	158,957
– Unlocking the lock-up shares		–	377,601	–	(377,601)	170,969	–	–	–	–	170,969
Transfer from capital reserve		955,577	(955,577)	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	32,309	–	(32,309)	–	–
At 31 December 2010 and 1 January 2011		2,866,732	8,594,212	–	462,220	(276,266)	875,295	(15,413)	1,513,698	841,297	14,861,775
Final 2010 dividend declared		–	–	–	–	–	–	–	–	(841,297)	(841,297)
Total comprehensive income for the year	11	–	–	–	–	–	–	(936)	519,110	–	518,174
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(686,190)	686,190	–
Share Incentive Scheme:	40										
– Equity-settled share expense		–	–	–	41,821	–	–	–	–	–	41,821
– Unlocking the lock-up shares		–	491,539	–	(491,539)	235,729	–	–	–	–	235,729
Transfer from capital reserve	39	573,346	(573,346)	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	50,379	–	(50,379)	–	–
At 31 December 2011		3,440,078	8,512,405	–	12,502	(40,537)	925 674	(16,349)	1,296,239	686,190	14,816,202

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42. 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 five shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled were 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.

The proposals of profit distribution and capitalisation from capital reserve for 2010 were implemented on 7 July 2011, whereby two shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled were adjusted to 74,888,624 shares accordingly. Unlocking conditions in respect of 45% of the First Award had been fulfilled and 60,532,063shares were listed on 21 July 2011. Unlocking conditions in respect of 35% of the Second Award had been fulfilled and 5,230,667 shares were listed on 29 December 2011. After deducting the Subject Shares under the Unlocking, there were 9,125,893 registered Subject Shares for which unlocking conditions had not been fulfilled as at 31 December 2011, among which 2,251,699 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 RMB40,537,000 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 as at 31 December 2011.

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43. DISPOSAL OF A SUBSIDIARY

	Note	2011 RMB'000
Net liabilities disposed of:		
Property, plant and equipment		**950,917**
Intangible assets		**27,439**
Inventories		**20,180**
Trade receivables		**13,649**
Prepayments and other receivables		**79,829**
Cash and bank balances		**11,599**
Trade payables		**(428,306)**
Accruals and other payables		**(151,045)**
Interest-bearing bank borrowings		**(719,573)**
Non-controlling interests		**95,703**
		(99,608)
Loss on disposal of a subsidiary	6	**(18,801)**
		(118,409)
Satisfied by:		
Cash		**63,009**
Assumed liabilities		**(181,418)**
		(118,409)

An analysis of the net cash flow in respect of the disposal of a subsidiary is as follows:

	2011 RMB'000
Cash consideration	**63,009**
Cash and bank balances disposed of	**(11,599)**
Net cash flow	
In respect of the disposal of a subsidiary	**51,410**

44. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group and Company	
	2011 RMB'000	2010 RMB'000
Guarantees given to banks in connection with borrowing to customers	**65,213**	66,179
Guarantees given to banks in respect of performance bonds	**9,752,558**	7,323,976
	9,817,771	7,390,155

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44. CONTINGENT LIABILITIES (continued)

(b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB53,683,000). 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 RMB23,081,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. 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 litigation is likely to continue for a considerable amount of time. 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 and the progress of the case, the Directors of the Company 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 for the current period.

(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 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 Nanshan District People's 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 to the Nanshan District People's Court 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 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. Currently the case is under trial and joint consideration. 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. As of now the two trials have suspended. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, it is difficult to predict the final outcome of the case at this stage. The Directors of the Company 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 for the current period.

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44. CONTINGENT LIABILITIES (continued)

(d) On 9 December 2011, the Company and ZTE USA, Inc. ("ZTE USA"), its wholly-owned subsidiary, received a petition for arbitration filed by four USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the above case. The Directors of the Company 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 for the current period.

(e) A lawsuit on breach of agreement and infringement was instituted against the Company and ZTE (USA) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between Universal Telephone Exchange, Inc. ("UTE") and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons, the attorney of the Company filed a written response to the court categorically denying UTE's charges against the Company and ZTE (USA) and also disputing the jurisdiction of the said court over the Company. On 8 February 2011, UTE filed a Discovery Request in respect of the Company and ZTE (USA) in response to the dissent on jurisdiction raised by the Company, and the court gave permission to such Discovery Request.

Upon due enquiries, it came to the knowledge of our attorney that UTE's business license in Texas was terminated on 21 May 2010. On this basis, our attorney disputed the Discovery Request filed by UTE and applied to the court for the lawsuit to be dismissed on the grounds that UTE's business license in Texas was terminated. On 29 March 2011, UTE filed a written response to the dissent of ZTE USA, requesting the court to reject ZTE USA's dissent and rule that UTE had the right to engage in legal actions on the grounds that its business license had been reinstated. On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court pending its ruling. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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44. CONTINGENT LIABILITIES (continued)

(f) On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

45. 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, this 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.

46. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 33 to the financial statements.

Notes to Financial Statements

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47. 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 2014. During the year, approximately RMB89,219,000 (2010: RMB25,810,000) 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 50 years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**359,270**	449,170	**133,920**	137,395
In the second to fifth years, inclusive	**1,163,828**	1,062,877	**448,030**	193,560
After five years	**298,500**	325,130	**129,986**	21,398
	1,821,598	1,837,177	**711,936**	352,353

48. COMMITMENTS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**836,989**	747,546	**256,197**	572,873
Investments in associates	**945**	76,171	**—**	—
	837,934	823,717	**256,197**	572,873
Authorised, but not contracted for:				
Land and buildings	**21,752,024**	14,227,386	**5,859,000**	—

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49. 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	2011 RMB'000	2010 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**355,172**	376,294
Sales of finished goods	(b)	**2,444**	80
Rental expense	(c)	**8,827**	14,287
Purchase of land and buildings	(e)	**—**	152,900
Associates:			
Purchase of raw materials	(a)	**378,906**	264,763
Sales of finished goods	(b)	**13,284**	56,013
Rental income	(f)	**273**	190
Jointly-controlled entities:			
Sales of finished goods	(b)	**318,490**	—
Entities significantly influenced by key management personnel of the Group:			
Purchase of raw materials	(a)	**274,070**	284,604
Sales of finished goods	(b)	**66,582**	10,803
Rental expense	(d)	**47,066**	43,996
Rental income	(f)	**1,802**	1,659
Entities controlled by the controlling shareholder:			
Purchase of raw materials	(a)	**179,033**	197,509
Sales of finished goods	(b)	**671**	443
The substantial shareholder of the controlling shareholder:			
Purchase of raw materials	(a)	**1,701**	3,709
Sales of finished goods	(b)	**4**	—
Rental income	(f)	**64**	37

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

Notes:

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

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

(c) The rental expense was charged at rates of RMB40 per square metre and RMB200 per car parking space.

(d) The rental expense was charged at rates ranging from RMB30 to RMB115 per square metre.

(e) During last 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 rental income was earned from RMB10.62 to RMB75 per square metre.

Notes to Financial Statements

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49. RELATED PARTY TRANSACTIONS (continued)

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
The controlling shareholder	8,827	2,942	—
Entities significantly influenced by key management personnel of the Group	57,258	26,658	11,400

(ii) A subsidiary of the Group entered into a series of agreements with related parties to purchase raw materials for the Group's future production. The maximum amount of total purchases from related parties in the following year was expected as following:

	In 2012 RMB'000
The controlling shareholder	1,690,000
An entity significantly influenced by key management personnel of the Group	600,000

(iii) The Group leases certain of its office premises to related parties under non-cancellable operating lease arrangements. The Group expected the lease receivables from related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
Associates	599	399	—
Entities significantly influenced by key management personnel of the Group	1,908	212	106
The substantial shareholder of the controlling shareholder	106	30	—

(iv) The Group entered into certain sales contract with a company significantly influenced by key management personnel of the Group. As at the end of the year, contracts involving a sales amount of approximately RMB8,980,000 were outstanding.

Notes to Financial Statements

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49. RELATED PARTY TRANSACTIONS (continued)

(III) 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 25 and 31 to the financial statements.

(ii) Details of the Group's balances of receivables and payables which are not trading in nature with the controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 27 and 32 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**23,486**	25,783
Post-employment benefits	**370**	459
Equity-settled share expense	**1,174**	5,908
Total compensation paid to key management personnel	**25,030**	32,150

The related party transactions in respect of purchases of raw materials amounting to approximately RMB530 million (2010: RMB572 million) and rental expenses amounting to approximately RMB46 million (2010: RMB52 million) constitute continuing connected transactions as defined in Chapter 14A of the 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".

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50. 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:

2011	**Group**			
Financial assets	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale financial assets**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Available-for-sale investments	—	—	819,972	819,972
Trade and bills receivables/long-term trade receivables	—	27,961,228	—	27,961,228
Factored trade receivables/factored long-term trade receivables	—	7,779,179	—	7,779,179
Financial assets included in prepayments, deposits and other receivables	—	2,117,200	—	2,117,200
Equity investments at fair value through profit or loss	87,180	—	—	87,180
Pledged deposits	—	1,674,544	—	1,674,544
Time deposits with original maturity over three months	—	85,000	—	85,000
Cash and cash equivalents	—	20,662,089	—	20,662,089
Derivative financial instruments	8,438	—	—	8,438
	95,618	60,279,240	819,972	61,194,830

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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011 **Financial liabilities**	**Financial liability at fair value through profit or loss** **RMB'000**	**Financial liabilities at amortised cost** **RMB'000**	**Derivatives designed as hedging instruments in effective hedges** **RMB'000**	**Other financial liabilities** **RMB'000**	**Total** **RMB'000**
Trade and bills payables	—	32,692,252	—	—	32,692,252
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	7,945,814	—	—	7,945,814
Financial liabilities included in other payables and accruals	—	6,779,229	—	—	6,779,229
Interest-bearing bank borrowings	—	18,817,150	—	—	18,817,150
Financial guarantee contract	—	—	—	3,689	3,689
Bonds cum warrants	—	3,884,198	—	—	3,884,198
Factoring costs payable	—	377,059	—	—	377,059
Derivative financial instruments	2,433	—	4,120	—	6,553
	2,433	70,495,702	4,120	3,689	70,505,944

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2010 Financial assets	Group 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	—	1,387,908	—	1,387,908
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	45,271,734	342,706	45,737,805

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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010 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	—	2,421,966	—	2,421,966
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
Factoring costs payable	—	392,211	—	392,211
Derivative financial instruments	40,139	—	—	40,139
	40,139	49,677,477	3,689	49,721,305

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011	**Company**			
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	**—**	**—**	**212,448**	**212,448**
Trade and bills receivables/long-term trade receivables	**—**	**36,898,071**	**—**	**36,898,071**
Factored trade receivables/factored long-term trade receivables	**—**	**7,366,330**	**—**	**7,366,330**
Financial assets included in prepayments, deposits and other receivables	**—**	**3,477,706**	**—**	**3,477,706**
Equity investments at fair value through profit or loss	**87,180**	**—**	**—**	**87,180**
Pledged deposits	**—**	**1,248,110**	**—**	**1,248,110**
Cash and cash equivalents	**—**	**13,276,734**	**—**	**13,276,734**
	87,180	**62,266,951**	**212,448**	**62,566,579**

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011 **Financial liabilities**	**Financial liabilities at amortised cost** **RMB'000**	**Other financial liabilities** **RMB'000**	**Total** **RMB'000**
Trade and bills payables	**43,901,916**	**—**	**43,901,916**
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	**7,532,965**	**—**	**7,532,965**
Financial liabilities included in other payables and accruals	**19,706,782**	**—**	**19,706,782**
Interest-bearing bank borrowings	**8,359,217**	**—**	**8,359,217**
Financial guarantee contract	**—**	**3,689**	**3,689**
Bonds cum warrants	**3,884,198**	**—**	**3,884,198**
Factoring costs payable	**377,059**	**—**	**377,059**
	83,762,137	**3,689**	**83,765,826**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2010	Company			
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	—	—	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	—	5,678,250	—	5,678,250
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
	23,984	50,401,497	244,448	50,669,929

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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010 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	7,589,303	—	7,589,303
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
Factoring costs payable	392,211	—	392,211
	60,633,252	3,689	60,636,941

51. 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, trade receivables, deposits and other receivables, 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 fair value of listed equity investments are based on quoted market prices.

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 and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

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51. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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)

Assets measured at fair value:

Group
As at 31 December 2011

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Equity investments at fair value through profit or loss	**87,180**	**—**	**—**	**87,180**
Derivative financial instruments	**—**	**8,438**	**—**	**8,438**
	87,180	**8,438**	**—**	**95,618**

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

Company
As at 31 December 2011

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Equity investments at fair value through profit or loss	**87,180**	**—**	**—**	**87,180**
	87,180	**—**	**—**	**87,180**

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51. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Assets measured at fair value: (continued)

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

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 (2010: Nil).

Liabilities measured at fair value:

Group
As at 31 December 2011

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(6,553)**	**—**	**(6,553)**
	—	**(6,553)**	**—**	**(6,553)**

As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	—	(40,139)	—	(40,139)
	—	(40,139)	—	(40,139)

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 (2010: Nil).

Notes to Financial Statements

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52. 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. The Group also enters into derivative transactions to manage the interest rate and currency risks arising from the Group's operations and its sources of finance, but is forbidden to engage in speculative activities for profit-making. 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 2011, the bank loans of the Group and the Company included fixed and variable rate debts.

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. As the Group borrowed a USD900 million floating interest loan, the Group entered and will enter into interest rate swaps with a nominal principal amount of not more than USD900 million at an appropriate timing, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of the interest rate swaps, approximately 26% (2010: 39%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2011	**0.25%**	**(34,740)**	**7,031**
	(0.25%)	**34,740**	**(7,031)**
2010	0.25%	(14,668)	—
	(0.25%)	14,668	—

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. These 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 a certain portion of the bank loans is denominated in USD. The Group entered into forward currency

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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 a 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 EUR 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.

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in profit before tax RMB'000**
2011		
If RMB weakens against USD	**3%**	**(37,165)**
If RMB strengthens against USD	**(3%)**	**37,165**
If RMB weakens against EUR	**5%**	**210,820**
If RMB strengthens against EUR	**(5%)**	**(210,820)**

	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)

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, other receivables and derivative investment, 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.

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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 25 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

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

2011	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	–	12,091,433	532,455	3,655,890	3,356,192	19,635,970
Trade and bills payables	21,542,885	11,149,367	–	–	–	32,692,252
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	–	3,789,731	2,161,907	898,008	1,806,161	8,655,807
Other payables	6,677,470	101,759	–	–	–	6,779,229
Bonds cum warrants	–	32,000	4,032,000	–	–	4,064,000
Factoring costs payable	–	–	92,538	80,700	304,113	477,351
Derivative financial instruments	–	5,298	3,465	1,835	(4,157)	6,441
Financial guarantee contract	68,902	–	–	–	–	68,902
	28,289,257	27,169,588	6,822,365	4,636,433	5,462,309	72,379,952

Notes to Financial Statements

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

2010	Group					
	On demand	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	—	3,048,068	1,921,016	1,285,960	2,079,086	8,334,130
Other payables	2,309,797	112,169	—	—	—	2,421,966
Bonds cum warrants	—	32,000	32,000	4,032,000	—	4,096,000
Factoring costs payable	—	—	88,947	75,604	334,944	499,495
Derivative financial instruments	—	40,139	—	—	—	40,139
Financial guarantee	69,868	—	—	—	—	69,868
	17,820,871	21,365,087	3,196,414	5,570,259	2,880,908	50,833,539

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 2011 and 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 end of the reporting periods were as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Interest-bearing bank borrowings	**18,817,150**	9,620,540
Total equity	**26,288,775**	24,961,998
Total equity and interest-bearing bank borrowings	**45,105,925**	34,582,538
Gearing ratio	**42%**	28%

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53. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB742,729,000 (2010: RMB740,643,000) is by assuming directly related liabilities.

54. EVENTS AFTER THE REPORTING PERIOD

(i) As at 19 March 2012, Jufei, an associate of the Group, was listed in GEM Board of Shenzhen Stock Exchange. The listing price of Jufei was RMB25 per share, and 20,460,000 shares were issued upon the initial public offering. 12.87 million shares of Jufei, representing 21.62% of the total share capital of Jufei before the offering, were held by Shenzhen Changfei Investment Company Limited, a subsidiary of the Company.

(ii) Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB2 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,440,078,020 shares as at 31 December 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 2011 profit distribution (the "Record Date"). As at 28 March 2012, 9,125,893 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 2011 profit distribution proposal will be 3,430,952,127 shares, on which basis the 2011 profit distribution plan will be implemented. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.

55. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment. The comparative revenue and cost of sales of RMB357,188,000 have been reclassified and restated to conform with the current year's presentation and accounting treatment to recognize the revenue net of Brazilian taxes of IPI and ICMS.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2012.

Documents Available for Inspection

1. Text of the 2011 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 2011 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 and posted on http://www.cninfo.com.cn during the year;

5. Articles of Association.

By order of the Board

Hou Weigui
Chairman

29 March 2012

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