ZTE CORPORATION

中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

2010 ANNUAL REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation ("ZTE" or the "Company") confirm that this annual report summary and results announcement 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. The 2010 annual report containing all information required to be presented in annual reports in accordance with Appendix 16 to the Rules (the "Hong Kong Stock Exchange Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") will be posted on the website of the Hong Kong Stock Exchange (http://www.hkexnews.com.hk) and the Company's website (http://www.zte.com.cn) in due course.

1.2 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.

1.3 This annual report has been considered and approved at the Sixteenth meeting of the Fifth Session of the Board of Directors of the Company. Mr. Lei Fanpei, Vice Chairman, was unable to attend the meeting due to work reasons and authorised Mr. Hou Weigui, Chairman, to vote on his behalf.

1.4 The respective financial statements of ZTE Corporation and its subsidiaries (the "Group") for the year ended 31 December 2010 were prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs") and with Hong Kong Financial Reporting Standards ("HKFRSs") respectively, and had been audited by Ernst & Young Hua Ming and Ernst & Young, and an unqualified auditors' report has been issued by each of them.

1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial reports contained in the 2010 annual report.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A shares)	763 (H shares)
Abbreviated name of bond (code)	中興債1(115003)	—
Place of listing	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
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	
Principal place of business in Hong Kong	8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

2.2 Contact Persons and Correspondence

	Authorised Representatives	**Secretary to the Board of Directors/Company Secretary**	**Securities Affairs Representatives**
Name	Shi Lirong, Feng Jianxiong	Feng Jianxiong	Xu Yulong, Li Fei
Address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China		
Tel	+86 755 26770282		
Fax	+86 755 26770286		
E-mail	fengjianxiong@zte.com.cn		

3. ACCOUNTING AND BUSINESS DATA HIGHLIGHTS

3.1 Major accounting data prepared in accordance with PRC ASBEs

Unit: RMB in millions

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

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

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

3.2 Major financial indicators prepared in accordance with PRC ASBEs

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

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

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

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

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

Extraordinary items

√ Applicable □ N/A

Unit: RMB in millions

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

3.3 Major accounting information prepared in accordance with HKFRs

3.3.1 Major financial information of the Group prepared in accordance with HKFRSs

Unit: RMB in millions

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

Unit: RMB in millions

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

3.3.2 Major financial indicators of the Group prepared in accordance with HKFRSs

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

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

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

3.4 Differences between PRC ASBEs and HKFRSs

□ Applicable √ N/A

The amounts of net profit and net assets of the Group for the year ended and as at 31 December 2010 calculated in accordance with PRC ASBEs are entirely consistent with those calculated under HKFRSs.

4. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Changes in share capital during the year (unit: shares)

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

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

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

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

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

4.2 Changes in shares subject to lock-up

Unit: shares

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

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

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

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

4.3 Shareholders of the Company

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

Unit: shares

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

Shareholdings of top ten shareholders

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

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

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

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

1. Among the top ten shareholders of the Company, The 3rd and the 7th ranking shareholders, namely China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen and China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen, were managed by the same fund manager – China Life Insurance Company Limited. The 9th and 10th ranking shareholders, namely E Fund Selected Value Stock Securities Investment Fund and E Fund SZSE 100 ETF, were managed by the same fund manager — E Fund Management Company Limited.

2. There were no connected party relationships or concerted party relationships between Zhongxingxin and the rest of the top ten shareholders listed above.

3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up.

	Name of shareholder	Designated period of shareholding
Statement on placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period	None	None

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

Name of shareholder	Circulating shares not subject to lock-up held at the beginning of the year (shares)	Increase/ decrease during the year (shares)	Reasons for change	Circulating shares not subject to lock-up held at the end of the year (shares)
Zhongxingxin	620,214,413	310,107,207	Note	930,321,620

Note: The change in the number of circulating shares not subject to lock-up held by Zhongxingxin during the reporting period is attributable to the implementation of the 2009 profit distribution and capitalisation of capital reserve plans of the Company. For details, please refer to the Company's "Announcement on Equity Distribution for 2009" dated 17 June 2010.

4.4 Controlling shareholder and de facto controller

4.4.1 ***Changes in controlling shareholder and de facto controller***

□ Applicable √ N/A

4.4.2 ***Details of controlling shareholder and de facto controller***

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

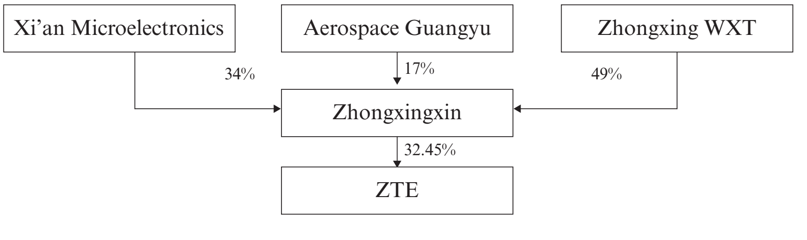
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Shenzhen Aerospace Guangyu Industrial (Group) Company Limited ("Aerospace Guangyu") and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44 .45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin can control of the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 20 March 1984. The legal representative is Xie Weiliang and the registered capital amounts to RMB17,950,000. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), raw materials for textile, raw materials for chemical fibre, apparel, textile and warehousing. (Import and export operations are conducted in accordance with relevant regulations.) Import and export operations 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. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment.

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



5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in the shareholdings and annual remuneration of directors, supervisors and senior management

										Shares granted under the Share Incentive Scheme (restricted A shares)				
Name	Title	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason for change	Total remuneration received from the Company during the reporting period (RMB10,000) (before tax)	Number of restricted shares granted (share)	Number of restricted shares granted during the period (shares)	Grant price of restricted shares (cum-right basis) (RMB)	Number of restricted shares held at the end of the reporting period	Whether remuneration is received from shareholder entities or other connected entities
Hou Weigui	Chairman	Male	69	3/2010	3/2013	659,706	989,560	Note 1	129.4	0	0	30.05	0	No
Wang Zongyin[Note 3]	Vice Chairman	Male	66	3/2007	3/2010	18,200	27,300	Note 1	1.7	27,300	0	30.05	12,285	Yes
Lei Fanpei	Vice Chairman	Male	48	3/2010	3/2013	0	0	—	7.5	0	0	30.05	0	Yes
Xie Weiliang	Vice Chairman	Male	55	3/2010	3/2013	18,200	27,300	Note 1	10.0	27,300	0	30.05	12,285	Yes
Zhang Junchao	Director	Male	57	3/2010	3/2013	18,200	27,300	Note 1	10.0	27,300	0	30.05	12,285	Yes
Li Juping[Note 3]	Director	Male	55	3/2007	3/2010	18,200	27,300	Note 1	1.7	27,300	0	30.05	12,285	Yes
Wang Zhanchen	Director	Male	58	3/2010	3/2013	0	0	—	8.3	0	0	30.05	0	Yes
Dong Lianbo	Director	Male	54	3/2010	3/2013	18,200	27,300	Note 1	10.0	27,300	0	30.05	12,285	Yes
Shi Lirong	Director and President	Male	47	3/2010	3/2013	200,283	300,425	Note 1	241.8	0	0	30.05	0	No
Yin Yimin	Executive Director	Male	47	3/2010	3/2013	351,574	527,361	Note 1	92.9	0	0	30.05	0	No
He Shiyou	Director, Executive Vice President	Male	44	3/2010	3/2013	191,633	287,450	Note 1	171.8	0	0	30.05	0	No
Mi Zhengkun[Note 3]	Independent Director	Male	65	3/2007	3/2010	0	5,000	Note 2	1.7	0	0	30.05	0	No
Li Jin[Note 3]	Independent Director	Male	43	3/2007	6/2010	0	0	—	4.4	0	0	30.05	0	No
Qu Xiaohui	Independent Director	Female	56	3/2010	3/2013	0	0	—	12.0	0	0	30.05	0	No
Wei Wei	Independent Director	Male	45	3/2010	3/2013	0	0	—	12.0	0	0	30.05	0	No
Chen Naiwei	Independent Director	Male	53	3/2010	3/2013	0	0	—	12.0	0	0	30.05	0	No
Tan Zhenhui	Independent Director	Male	66	3/2010	3/2013	0	0	—	10.3	0	0	30.05	0	No
Timothy Alexander Steinert	Independent Director	Male	51	6/2010	3/2013	0	0	—	7.6	0	0	30.05	0	No
Zhang Taifeng	Chairman of the Supervisory Committee	Male	69	3/2010	3/2013	221,458	332,187	Note 1	129.4	0	0	30.05	0	No
Wang Wangxi[Note 3]	Supervisor	Male	44	3/2007	3/2010	0	0	—	68.5	0	0	30.05	0	No
He Xuemei	Supervisor	Female	40	3/2010	3/2013	0	0	—	53.9	0	0	30.05	0	No
Zhao Xinyu[Note 4]	Supervisor	Male	32	3/2010	6/2010	21,258	31,887	Note 1 and Note 2	45.6	39,858	0	30.05	17,937	No
Zhou Huidong	Supervisor	Male	35	6/2010	3/2013	26,754	40,131	Note 1	59.0	40,131	0	30.05	18,058	No
Qu Deqian[Note 3]	Supervisor	Male	49	3/2007	3/2010	18,236	27,354	Note 1	0	0	0	30.05	0	Yes
Wang Yan	Supervisor	Female	46	3/2010	3/2013	0	0	—	0	0	0	30.05	0	Yes
Xu Wei Yan	Supervisor	Female	48	3/2010	3/2013	5,110	7,666	Note 1	73.8	0	0	30.05	0	Yes
Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	48	3/2010	3/2013	215,233	322,850	Note 1	170.1	0	0	30.05	0	No
Xie Daxiong	Executive Vice President	Male	47	3/2010	3/2013	289,607	414,410	Note 1 and Note 2	143.9	273,000	0	30.05	122,850	No
Tian Wenguo	Executive Vice President	Male	42	3/2010	3/2013	206,877	233,316	Note 1 and Note 2	140.6	273,000	0	30.05	122,850	No
Qiu Weizhao	Executive Vice President	Male	47	3/2010	3/2013	182,000	273,000	Note 1	152.7	273,000	0	30.05	122,850	No
Fan Qingfeng	Executive Vice President	Male	42	3/2010	3/2013	292,500	363,750	Note 1 and Note 2	162.0	409,500	0	30.05	184,275	No
Chen Jie	Senior Vice President	Female	52	3/2010	3/2013	366,990	550,485	Note 1	178.9	273,000	0	30.05	122,850	No
Zhao Xianming	Senior Vice President	Male	44	3/2010	3/2013	347,100	393,150	Note 1 and Note 2	104.5	491,400	0	30.05	221,130	No
Pang Shengqing	Senior Vice President	Male	42	3/2010	3/2013	292,891	329,502	Note 1 and Note 2	155.3	409,500	0	30.05	184,275	No
Zeng Xuezhong	Senior Vice President	Male	37	3/2010	3/2013	312,000	368,000	Note 1 and Note 2	136.1	409,500	0	30.05	184,275	No
Xu Huijun	Senior Vice President	Male	37	3/2010	3/2013	347,100	408,121	Note 1 and Note 2	120.3	491,400	0	30.05	221,130	No
Ye Weimin	Senior Vice President	Male	44	3/2010	3/2013	256,524	384,786	Note 1	120.4	273,000	0	30.05	122,850	No
Ni Qin	Senior Vice President	Male	51	3/2010	3/2013	351,489	527,233	Note 1	104.8	273,000	0	30.05	122,850	No
Wu Zengqi	Senior Vice President	Male	46	3/2010	3/2013	299,000	336,375	Note 1 and Note 2	159.1	409,500	0	30.05	184,275	No
Zhu Jinyun	Senior Vice President	Male	39	3/2010	3/2013	253,708	304,450	Note 1 and Note 2	143.7	380,562	0	30.05	171,252	No
Zhang Renjun	Senior Vice President	Male	42	3/2010	3/2013	0	0	—	85.7	0	0	30.05	0	No
Feng Jianxiong	Secretary to the Board of Directors	Male	37	3/2010	3/2013	195,000	262,500	Note 1 and Note 2	86.4	273,000	0	30.05	122,850	No
Total	—	—	—	—	—	5,995,031	8,157,449	—	3,339.8	5,128,851	0	—	2,307,982	—

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

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

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

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

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

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

5.2 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	18	9	8	1	0	Nil
Wang Zongyin	Vice Chairman and Non-executive Director	3	0	2	1	0	Nil
Lei Fanpei	Vice Chairman and Non-executive Director	15	5	6	4	0	Nil
Xie Weiliang	Vice Chairman and Non-executive Director	18	7	8	3	0	Nil
Zhang Junchao	Non-executive Director	18	7	8	3	0	Yes[Note 2]
Li Juping	Non-executive Director	3	0	2	1	0	Nil
Wang Zhanchen	Non-executive Director	15	6	6	3	0	Yes[Note 3]
Dong Lianbo	Non-executive Director	18	9	8	1	0	Nil
Yin Yimin	Executive Director	18	9	8	1	0	Nil
Shi Lirong	Executive Director	18	7	8	3	0	Nil
He Shiyou	Executive Director	18	5	8	5	0	Yes[Note 4]
Mi Zhengkun	Independent Non-executive Director	3	1	2	0	0	Nil
Li Jin	Independent Non-executive Director	7	4	2	1	0	Nil
Qu Xiaohui	Independent Non-executive Director	18	9	8	1	0	Nil
Wei Wei	Independent Non-executive Director	18	7	8	3	0	Nil
Chen Naiwei	Independent Non-executive Director	18	8	8	2	0	Yes[Note 5]
Tan Zhenhui	Independent Non-executive Director	15	8	6	1	0	Nil
Timothy Alexander Steinert	Independent Non-executive Director	11	5	6	0	0	Nil

Board meetings held during the year	18
Including: on-site meetings	3
Meetings via communications means	8
On-site meetings assisted by communications means	7

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

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

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

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

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

5.3 Interests of Directors, Supervisors and the President in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2010 are set out in the section headed "5.1 Changes in the shareholdings and annual remuneration of directors, supervisors and senior management" in this announcement.

Save as disclosed above, as at 31 December 2010, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 31 December 2010, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

6. REPORT OF THE BOARD OF DIRECTORS

6.1 Discussion and Analysis of overall operations during the reporting period

Overview of the PRC telecommunications industry in 2010

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

Overview of the global telecommunications industry in 2010

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

Technological progress in the communications industry took a new turn during the reporting period, where we sought inherent quality through detailed work and overall improvements through integration and innovation. Broadband and mobile communications remained the principal drivers for current technological developments, as international governments continued to be actively involved in the construction of broadband networks to satisfy the demand for bandwidth that allowed desirable speed of transmission. Meanwhile, a number of countries were launching 4G licenses for auction, while the construction of LTE for experimental commercial applications also started in developed markets such as Europe, the United States and Japan.

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

Operating results of the Group for 2010

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

By market

The domestic market

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

The international market

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

By product

Carriers' Networks

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

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

Terminals

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

Telecommunications software systems, services and other products

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

6.2 Breakdown of principal operations by industry and product segments (under PRC ASBEs)

Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year Increase/ decrease in operating costs	Year-on-year Increase/ decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of Communication equipment	70,263.9	47,335.0	32.63%	16.58%	16.52%	0.03
Total	70,263.9	47,335.0	32.63%	16.58%	16.52%	0.03
II. By product						
Carriers' networks	41,990.2	25,852.9	38.43%	5.02%	(0.70%)	3.55
Terminal	17,927.4	14,295.4	20.26%	37.15%	48.07%	(5.88)
Telecommunication software systems, services and other products	10,346.3	7,186.7	30.54%	43.32%	45.68%	(1.12)
Total	70,263.9	47,335.0	32.63%	16.58%	16.52%	0.03

6.3 Breakdown of principal operations by geographic region (under PRC ASBEs)

Region	Operating revenue (RMB in millions)	Year-on-year increase/ decrease in operating revenue
The PRC	32,197.5	5.90%
Asia (excluding the PRC)	12,687.9	(3.87%)
Africa	10,639.0	55.07%
Europe, America and Oceania	14,739.5	50.26%
Total	70,263.9	16.58%

6.4 Items relating to fair value measurement

(1) Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	—	123,778	—	—	123,365
Including: derivative financial assets	—	123,778	—	—	123,365
2. Available-for-sale financial assets	—		—	—	—
Sub-total of financial assets	—	123,778	—	—	123,365
Financial liabilities Note 1	—	(40,181)	—	—	(40,139)
Investment properties	—	—	—	—	—
Productive living assets	—	—	—	—	—
Others	—	—	—	—	—
Total	—	83,597	—	—	—

Note 1: Financial liabilities comprised derivative financial liabilities.

6.5 Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	—	8,360	—	—	7,947
Including: derivative financial assets	—	8,360	—	—	7,947
2. Loans and receivables	16,929,417	—	—	(253,103)	16,717,900
3. Available-for-sale financial assets	7,112	—	—	—	47,503
4. Held-to-maturity investments	—	—	—	—	0
Sub-total of financial assets	16,936,529	8,360	—	(253,103)	16,773,350
Financial liabilities	5,657,676	(40,181)	—	—	6,360,143

6.6 Management Discussion and Analysis (under HKFRSs)

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 the 2010 annual report.

Unit: RMB in millions

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

Revenue analysed by product and geographic region

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

Unit: RMB in millions

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

The Following table sets out the operating revenue of the Group and the corresponding percentage of the total operating revenue attributable to the PRC, Asia (excluding the PRC), Africa and Europe, America and Oceania for the periods indicated:

Unit: RMB in millions

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

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

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

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

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

Cost of sales and gross profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other income and gains

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

Research and development costs

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Profit from operating activities

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

Finance costs

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

Tax

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

Profit attributable to minority interests

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

Other comprehensive income

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

Debt-equity ratio and the basis of calculation

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

Liquidity and capital resources

In 2010, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements.

Cash and cash equivalents of the Group as of 31 December 2010 amounted to RMB14,905.1 million.

Cash Flow Data

Unit: RMB in millions

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

Operating activities

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

Investing activities

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

Financing activities

The Group's net cash flow from financing activities for 2010 was RMB4,288.5 million, compared to RMB2,327.1 million for 2009, reflecting mainly proceeds of RMB3,196.8 million received from the placing of new H shares and exercise of A share warrants.

Capital expenditure

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

Unit: RMB in millions

Capital expenditure	2010	2009
Purchases of fixed assets and increase of construction in progress payments	**1,898.0**	1,592.1

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

Indebtedness

Unit: RMB in millions

Item	31 December 2010	2009
Secured bank loans	**4,971.3**	2,431.4
Unsecured bank loan	**4,649.2**	6,811.5

Unit: RMB in millions

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

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

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

Contractual obligations

Unit: RMB in millions

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

Contingent liabilities

Unit: RMB in millions

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

Capital commitments

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

Unit: RMB in millions

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

Details of the Subsidiaries, Jointly-controlled Entities and Associates of the Group

Details of the subsidiaries, jointly-controlled entities and associates of the Group as at 31 December 2010 are set out in notes to the financial statements prepared in accordance with HKFRSs in the 2010 annual report.

Prospects for New Business

Details of the prospects for new business of the Group are set out in the "Chairman's Statement" in the 2010 annual report.

Employees

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

Charges on Assets

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

Plans for Material Investments or Acquisition of Capital Assets

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

Market Risks

For details of the Group's market risks, please refer to the section 6.13.2 hereof.

6.7 Use of Proceeds

√ Applicable □ N/A

6.7.1 Use of issue proceeds from the bonds cum warrants during the reporting period

The Company issued 40 million bonds cum warrants with a value of RMB4 billion ("Bonds cum Warrants") on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with China Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008. As at 31 December 2009, the amount invested by the Company in projects utilizing issue proceeds had met the agreed investment amount set out in issue 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 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" dated 25 March 2010.

Changes in projects

□ Applicable √ N/A

6.8 Investments using funds other than issue proceeds

√ Applicable □ N/A

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

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

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

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

6.8.2 *Establishment of ZTE Capital Management Company and Fund Subscription*

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

6.8.3 *Establishment of the Group Finance Company*

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

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

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

6.9 Explanatory statement by the Board of Directors on the reasons and impact of changes to the Company's accounting policies and accounting estimates or significant accounting errors and corrections

□ Applicable √ N/A

6.10 Explanatory statement by the Board of Directors in respect of qualified auditors' report from accountants

□ Applicable √ N/A

6.11 Board of Directors' proposal for profit distribution or capitalisation of capital reserve for the current year

√ Applicable □ N/A

*6.11.1 **Proposal for profit distribution or capitalisation of capital reserve for 2010***

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

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB2,354,995,000. The Board of Directors of the Company has recommended as follows:

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

Share Incentive Scheme (the "Third Unlocking") is not completed by the Record Date, on which basis the 2010 profit distribution plan will be implemented. In case the Third Unlocking is completed by the Record Date, the maximum number of shares to be unlocked in accordance with the Share Incentive Scheme will be 45% of the Subject Shares under the first award, namely 51,680,416 shares, which will be entitled to the cash dividend.

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

H shareholders who wish to qualify for the final dividend and the bonus issue of shares by way of capitalisation of capital reserve must deliver their instruments of transfer together with relevant share certificates to Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 pm on 15 April 2011.

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

6.11.2 *Implementation of the cash bonus distribution policy during the reporting period*

The Company's 2009 profit distribution and capitalisation of capital reserve plans were implemented on 24 June 2010. For details, please refer to the Company's "Announcement of ZTE Corporation on Equity Distribution for 2009" dated 17 June 2010.

6.11.3 *Cash distribution of the Company for the past three years*

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

The Company recorded profit for the reporting period but did not put forth any proposal of cash distribution of profit

□ Applicable √ N/A

6.12 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.

6.13 Business outlook and risk exposures

6.13.1 *Business outlook for 2011*

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

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

6.13.2 *Risk exposure*

(1) Interest rate risk

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

(2) Foreign exchange risk

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has adopted natural hedging to manage its foreign exchange risks and facilitated the matching of its assets and liabilities denominated in foreign currencies through the choice of different currencies for various businesses and spot currency trading.

(3) Credit risk

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

(4) Country risk

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

7. MATERIAL MATTERS

7.1 Acquisition of assets

□ Applicable √ N/A

7.2 Disposal of assets

□ Applicable √ N/A

7.3 Material guarantees

√ Applicable □ N/A

Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)

Guaranteed party	Date and code number of Announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
TRANSAM S.A. Note 2	28 April 2010, 201052	USD2.80 million	N/A	—	Joint liability	—	Yes	No

Total amount of third-party guarantee approved during the reporting period (A1)	USD2.80 million	Total amount of third-party guarantee actually incurred during the reporting period (A2)	0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)	RMB88,411,700	Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)	RMB69,868,100

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 assurance	6.6 years	No	No
Congo-Chine Telecom S.A.R.L. Note 3	17 August 2007, 200738	USD 105 million	8 November 2007	USD8,405,000	Guarantee by pledge	7.5 years	No	No
Closed Joint-Stock Company CJSC TK Mobile Note 4	12 May 2009, 200917	USD 70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia Note 4	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability assurance	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed	No	No
PT. ZTE Indonesia Note 4	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability assurance	3.6 years or the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed, whichever later	No	No
ZTE Telecom India Private Limited Note 5	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE Telecom India Private Limited Note 5	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance		No	No

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

Total amount guaranteed by the Company (sum of the two categories aforesaid)

Total amount of guarantee approved during the reporting period (A1+B1)	USD2.80 million	Total amount of guarantee actually incurred during the reporting period (A2+B2)	0
Total amount of guarantee approved as at the end of the reporting period (A3+B3) Note 1	RMB1,767,928,400	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) (Note 1)	RMB623,239,200

Total guaranteed amount as a percentage of net assets of the Company (A4+B4)	2.70%
Including:	
Amounts of guarantees provided on behalf of shareholders, effective controllers and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)	RMB573,239,200
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above (C+D+E)	RMB573,239,200
Statement on potential joint liability involved in outstanding guarantees	N/A

Note 1: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantee approved as at the end of the reporting period and the total balance of actually incurred as at the end the reporting period.

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

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

Note 4: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of USD40 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 USD5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the First Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, a USD5 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 USD40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.

Note 5: It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than USD30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company and application be made by the Company to the relevant bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding USD3 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 USD30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the USD3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

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

Note 7: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board in order to be effective. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting for approval following approval by the Board of Directors in order to be effective.

7.4 Significant connected transactions

7.4.1 Connected transactions in the ordinary course of business (in accordance with PRC laws and regulations)

√ Applicable □ N/A

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to December 2010 (excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun Telecom Company Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets and accessories: RMB1–RMB31,000 per unit; Cases and accessories: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2–RMB150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB0.3–RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	57,138.7	1.43%	Commercial acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas and radio frequency transmitter	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece and radio frequency transmitter, RMB350–4,100 per unit, depending on technical parameters and functional features.	28,406.4	0.71%	Commercial acceptance bill	No
Property leasing	ZTE Corporation and subsidiary Chengdu Zhongxing Software Company Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq.m. (property management undertaken by ZTE and no management fees are payable)	259 Note 1	0.54%	Tele-transfer	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq.m. (inclusive of RMB2.5/sq.m. as monthly management fees for landscape area)	555 Note 2	1.15%	Tele-transfer	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 31,000 sq.m.; with effect from 18 April 2010, the leased area was changed from 31,000 sq. m.; to 32,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	3,885.93	8.08%	Tele-transfer	No

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to December 2010 (excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
		Chongqing Zhongxing Development Company Limited (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq.m. (property management undertaken by the Company and no management fees are payable	513.67	1.07%	Tele-transfer	No

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

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

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

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

Connected transactions involving sales of products or provision of labour services to the Zhongxingxin and its subsidiaries by the Company during the year amounted to RMB523,000.

7.4.2 Current connected creditor's rights and debts

□ Applicable √ N/A

7.4.3 Table of appropriations and repayments of non-operating funds by the majority shareholder and its subsidiaries

□ Applicable √ N/A

7.5 Entrusted fund management

□ Applicable √ N/A

7.6 Performance of undertakings

√ Applicable □ N/A

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

7.7 Material litigation and arbitration

□ Applicable √ N/A

During the year, the Group was not involved in any material litigation or arbitration. For progress during the year of immaterial litigation and arbitration proceedings occurred prior to and other immaterial litigation and arbitration proceedings occurred during the year under review, please refer to the section headed "Material Matters" in the 2010 annual report of the Company.

7.8 Other significant events and analysis of their impact of and solutions

7.8.1 Investment in securities

□ Applicable √ N/A

7.8.2 *Equity interests in other listed companies*

√ Applicable □ N/A

Unit: RMB in ten thousands

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

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

7.8.3 *Equity interests in companies proposed for listing and non-listed financial enterprises*

□ Applicable √ N/A

7.8.4 *Dealings in shares of other listed companies*

□ Applicable √ N/A

7.8.5 *Other comprehensive income*

Unit: RMB in ten thousands

	2010	2009
Difference arising from foreign currency translation	**4,139.9**	864.4
Total	**4,139.9**	864.4

8. REPORT OF THE SUPERVISORY COMMITTEE

8.1 Supervisory committee meetings

8.1.1 Supervisory committee meetings

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

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

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

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

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

5. The Fourth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 20 May 2010, at which the "Resolution of the Company on the Second Unlocking of Subject Shares under the First Award of the Phase I Share

Incentive Scheme" and the "Resolution of the Company on the Verification of the Scheme Participant List for the Second Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme" were considered and passed.

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

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

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

8.1.2 The Supervisory Committee has furnished its opinion on the Company's conditions in 2010 as follows:

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

2. The Company has established a proper internal control system with proper documentation such as the Articles of Association, the Rules of Procedure for General Meetings, the Rules of Procedure for Board of Directors' Meetings and the Rules of Procedure for Supervisory Committee Meetings and the Company's management systems have been in good order. The decision-making process of the Company has been in compliance with the relevant requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. The procedures, proposed resolutions and implementation of resolutions of the general meetings and meetings of the Board of Directors have also been in compliance with relevant provisions of the laws, regulations and the Articles of Association. Obligations of information disclosure have been duly performed.

3. The Directors and the management of the Company have diligently performed their duties in compliance with the laws and conscientiously implemented the resolutions of the general meetings and meetings of the Board of Directors. They have not violated any laws, regulations and the Articles of Association in the performance of their duties, nor have they acted against the Company and its shareholders' interests.

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

5. The Supervisory Committee has confirmed following due inspection that the latest application of issue proceeds by the Company has been in compliance with provisions of relevant laws and regulations and the offer documents.

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

9. CORPORATE GOVERNANCE REPORT

The Company complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules throughout 2010.

The Directors of the Company confirm that the Company has adopted code provisions relating to the dealing in the Company's shares by Directors contained in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules. After making specific enquiries with all Directors and Supervisors, the Company was not aware of any information that reasonably suggested that any Directors or Supervisors had not complied with provisions of the Model Code during 2010.

10 FINANCIAL REPORTS

10.1 The Audit Committee of the Company had , in conjunction with the management, reviewed the accounting principles and standards adopted by the Group and had studied issues relating to auditing, internal control and financial reporting, including the review of the consolidated and company balance sheets at 31 December 2010 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2010 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2010 prepared in accordance with HKFRSs.

10.2 Audit Opinion

The consolidated and company balance sheets as at 31 December 2010, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2010 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming, who has issued a standard auditors' report with unqualified opinion (Ernst & Young Hua Ming (2011) SHENZI NO. 60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company statements of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2010 prepared by the Group in accordance with HKFRSs.

10.3 Comparative balance sheets, income statements, cash flow statements and statement of change in owner's equity (consolidated and parent)

10.3.1 Accounting statements prepared in accordance with PRC ASBEs and notes thereto (Please see Appendix I)

10.3.2 Accounting statements prepared in accordance with HKFRSs (Please see Appendix II)

10.4 Changes in accounting policies, accounting estimates and auditing methods compared to the 2009 annual report

□ Applicable √ N/A

10.5 Details, corrected amounts, reasons and effect of significant accounting errors

□ Applicable √ N/A

10.6 Changes in the scope of consolidation compared to the 2009 Annual Report are set out in the following:

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

Other than the aforesaid subsidiaries established during the year, the scope of consolidation is consistent with that of the previous year.

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
17 March 2011

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyou; six non-executive directors, Hou Weigui, Lei Fanpei, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Timothy Alexander Steinert.

APPENDIX I: FINANCIAL STATEMENTS PREPARED WITH PRC ASBES

BALANCE SHEET (AUDITED)

Currency: RMB'000

Assets	Note	**2010.12.31** Consolidated (Audited)	**2010.12.31** Company (Audited)	2009.12.31 Consolidated (Audited)	2009.12.31 Company (Audited)
Current assets:					
Cash on hand and at bank	1	**15,383,207**	**9,690,867**	14,496,808	10,096,875
Derivative financial assets		**123,365**	**23,984**	—	—
Bills receivable	2	**1,289,877**	**1,199,161**	779,112	672,374
Trade receivables		**17,563,925**	**24,283,587**	15,319,215	19,557,131
Factored trade receivables	3	**3,016,569**	**2,864,307**	2,870,221	2,727,445
Prepayments		**449,664**	**85,559**	355,422	173,408
Dividend receivable		**—**	**27,418**	—	1,017,020
Other receivables	5	**1,389,783**	**5,678,250**	1,059,829	3,240,367
Inventories	6	**12,103,670**	**5,501,368**	9,324,800	4,747,278
Amount due from customers for contract work		**14,208,039**	**12,668,254**	11,388,496	10,829,088
Total current assets		**65,528,099**	**62,022,755**	55,593,903	53,060,986
Non-current assets:					
Available-for-sale financial assets	7	**342,706**	**244,448**	253,760	244,448
Long-term trade receivables		**567,444**	**1,262,311**	383,749	1,347,932
Factored long-term trade receivables		**4,972,718**	**5,097,718**	2,968,629	3,093,629
Long-term equity investments		**917,989**	**3,515,824**	440,282	2,196,637
Fixed assets		**6,523,505**	**4,253,887**	4,714,533	3,195,746
Construction in progress	9	**1,146,739**	**796,916**	1,332,735	790,491
Intangible assets	10	**891,290**	**492,918**	613,773	481,171
Development costs		**1,466,504**	**350,767**	778,375	151,564
Deferred tax assets		**655,245**	**447,416**	643,918	382,537
Long-term deferred assets		**50,032**	**—**	10,306	—
Other non-current assets		**1,090,086**	**1,090,086**	608,359	608,359
Total non-current assets		**18,624,258**	**17,552,291**	12,748,419	12,492,514
TOTAL ASSETS		**84,152,357**	**79,575,046**	68,342,322	65,553,500

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun Mao

Currency: RMB'000

Liabilities and shareholders' equity	Note	**2010.12.31** Consolidated (Audited)	**2010.12.31** Company (Audited)	2009.12.31 Consolidated (Audited)	2009.12.31 Company (Audited)
Current liabilities:					
Short-term loans	13	**6,578,413**	**4,165,978**	4,906,503	3,388,734
Derivative financial liabilities		**40,139**	**—**	—	—
Bank advances on factored trade receivables		**3,016,569**	**2,864,307**	2,870,221	2,727,445
Bills payable	14	**10,056,477**	**9,444,653**	8,484,861	9,473,080
Trade payables		**15,441,206**	**25,507,206**	13,046,804	17,834,626
Amount due to customers for contract work	15	**2,772,669**	**1,703,293**	2,519,706	2,153,082
Advances from customers		**2,744,694**	**2,110,666**	2,337,628	2,039,175
Salary and welfare payables		**3,097,927**	**504,335**	2,398,720	878,705
Taxes payable		**(321,345)**	**(948,244)**	77,715	(307,988)
Dividend payable	16	**136,302**	**97**	16,966	75
Other payables		**2,976,325**	**8,030,437**	2,213,477	5,662,122
Deferred income		**91,256**	**7,805**	92,830	33,237
Provision		**260,693**	**109,493**	189,664	88,298
Long-term loans due within one year		**1,322,817**	**1,087,589**	1,939,965	1,204,846
Total current liabilities		**48,214,142**	**54,587,615**	41,095,060	45,175,437
Non-current liabilities:					
Long-term loans	21	**1,719,310**	**728,497**	2,396,393	1,742,512
Bank advances on factored long-term trade receivables		**4,972,718**	**5,097,718**	2,968,629	3,093,629
Bonds payable		**3,755,790**	**3,755,790**	3,632,681	3,632,681
Deferred tax liabilities		**89,167**	**66,048**	3,924	1,143
Other non-current liabilities		**439,232**	**439,232**	296,769	296,769
Total non-current liabilities		**10,976,217**	**10,087,285**	9,298,396	8,766,734
Total liabilities		**59,190,359**	**64,674,900**	50,393,456	53,942,171
Shareholders' equity					
Share capital	23	**2,866,732**	**2,866,732**	1,831,336	1,831,336
Capital reserves	24	**9,070,975**	**9,066,202**	6,749,899	6,745,877
Restricted shares remaining in lock-up		**(276,266)**	**(276,266)**	(447,235)	(447,235)
Surplus reserves	25	**1,537,512**	**875,295**	1,505,203	842,986
Retained profits	26	**9,222,387**	**1,542,299**	6,853,682	2,100,753
Proposed final dividend		**841,297**	**841,297**	552,425	552,425
Foreign currency translation differences		**(168,765)**	**(15,413)**	(220,043)	(14,813)
Total equity attributable to equity holders of the parent		**23,093,872**	**14,900,146**	16,825,267	11,611,329
Minority interests		**1,868,126**	**—**	1,123,599	—
Total shareholders' equity		**24,961,998**	**14,900,146**	17,948,866	11,611,329
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**84,152,357**	**79,575,046**	68,342,322	65,553,500

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

INCOME STATEMENT (AUDITED)

Currency: RMB'000

Item	Note	2010 Consolidated (Audited)	2010 Company (Audited)	2009 Consolidated (Audited)	2009 Company (Audited)
I. Operating revenue	27	**70,263,874**	**62,351,362**	60,272,563	55,057,688
Less: Operating costs	27	**47,335,026**	**53,564,488**	40,623,339	45,634,129
Taxes and surcharges	28	**1,149,077**	**211,891**	692,933	80,016
Selling and distribution costs		**8,754,968**	**6,019,425**	7,044,382	5,247,526
Administrative expenses	29	**2,410,294**	**1,353,305**	2,567,928	1,517,716
Research and development costs		**7,091,971**	**1,903,620**	5,781,583	1,619,869
Finance expenses		**1,198,477**	**1,323,561**	784,726	810,802
Asset impairment losses		**315,263**	**304,305**	737,940	492,847
Add: Gains/(losses) from changes in fair values	30	**83,597**	**23,984**	12,560	12,560
Investment income		**497,163**	**2,188,446**	11,871	1,051,371
Including: Share of profits of associates and Jointly controlled entities	31	**44,123**	**20,192**	26,002	12,089
II. Operating profit	32	**2,589,558**	**(116,803)**	2,064,163	718,714
Add: Non-operating income	33	**2,002,149**	**462,389**	1,391,420	268,136
Less: Non-operating expenses	34	**231,506**	**146,568**	130,841	47,713
Including: Gains and loss on disposal of non-current assets		**24,094**	**10,927**	26,744	10,455
III. Total profit		**4,360,201**	**199,018**	3,324,742	939,137
Less: Income tax		**883,719**	**(124,070)**	629,081	205,311
IV. Net profit		**3,476,482**	**323,088**	2,695,661	733,826
Net profit attributable to equity holders of the parent		**3,250,247**	**323,088**	2,458,121	733,826
Minority interests		**226,235**	**—**	237,540	—
V. Earnings per share					
(1) Basic earnings per share*		**RMB1.17**	**—**	RMB0.93	—
(2) Diluted earnings per share**		**RMB1.15**	**—**	RMB0.90	—
VI. Other comprehensive income		**41,399**	**(600)**	8,644	(3,320)
VII. Comprehensive income		**3,517,881**	**322,488**	2,704,305	730,506
Attributable to equity holders of the parent		**3,301,525**	**322,488**	2,486,224	730,506
Attributable to minority interests		**216,356**	**—**	218,081	—

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

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

** *As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 61,864,408 and 69,737,523 potentially dilutive ordinary shares, respectively, for the reporting period 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 2009 have been restated accordingly.*

CASH FLOW STATEMENT (AUDITED)

Currency: RMB'000

Item	2010 Consolidated (Audited)	2010 Company (Audited)	2009 Consolidated (Audited)	2009 Company (Audited)
I. Cash flows from operating activities				
Cash received from sale of goods or rendering services	**67,783,927**	**59,832,828**	58,137,378	51,366,991
Cash received from taxes returned	**4,742,338**	**3,465,668**	3,204,945	2,099,164
Cash received relating to other operating activities	**655,081**	**469,774**	442,533	317,223
Sub-total of cash inflow	**73,181,346**	**63,768,270**	61,784,856	53,783,378
Cash paid for goods and services	**47,382,746**	**53,303,110**	38,252,058	44,383,735
Cash paid to and on behalf of employees	**9,678,857**	**3,553,560**	7,899,513	2,126,248
Payments of taxes and levies	**4,437,726**	**532,350**	3,287,551	168,456
Cash paid relating to other operating activities	**10,740,107**	**5,636,662**	8,616,462	6,113,866
Sub-total of cash outflow	**72,239,436**	**63,025,682**	58,055,584	52,792,305
Net cash flows from operating activities	**941,910**	**742,588**	3,729,272	991,073
II. Cash flows from investing activities				
Cash received from sale of investments	**—**	**—**	12,933	5,572
Cash received from gains of investment	**17,001**	**57,538**	5,210	53,217
Net cash received form disposal of fixed assets, intangible assets and other long-terms assets	**29,480**	**35,471**	1,011	—
Sub-total of cash inflow	**46,481**	**93,009**	19,154	58,789
Cash paid to acquire fixed asset, intangible assets and other long term assets	**3,067,164**	**1,987,507**	2,053,824	1,601,175
Cash paid for investment	**91,902**	**806,600**	266,425	410,925
Sub-total of cash outflow	**3,159,066**	**2,794,107**	2,320,249	2,012,100
Net cash flow from investing activities	**(3,112,585)**	**(2,701,098)**	(2,301,095)	(1,953,311)

Item	2010 Consolidated (Audited)	2010 Company (Audited)	2009 Consolidated (Audited)	2009 Company (Audited)
III. Cash flows from financing activities				
Cash received from investment	**3,913,019**	**3,196,764**	46,371	29,771
Including: Capital injected the subsidiaries by minority interests	**716,255**	**—**	22,070	—
Cash received from borrowings	**11,946,153**	**8,823,585**	9,721,064	7,544,169
Sub-total of cash inflow	**15,859,172**	**12,020,349**	9,767,435	7,573,940
Cash paid for debt repayments	**11,568,474**	**9,177,613**	7,435,235	4,160,328
Cash payments for distribution of dividends and interest expenses	**1,252,949**	**1,128,436**	1,045,009	945,760
Including: dividend paid to minority shareholders of subsidiaries	**69,797**	**—**	44,227	—
Sub-total of cash outflow	**12,821,423**	**10,306,049**	8,480,244	5,106,088
Net cash flow from financing activities	**3,037,749**	**1,714,300**	1,287,191	2,467,852
IV. Effect of changes in foreign exchange rate on cash	**(37,797)**	**(58,861)**	16,294	(21,136)
V. Net increase in cash and cash equivalents	**829,277**	**(303,071)**	2,731,662	1,484,478
Add: cash and cash equivalents at beginning of year	**14,075,822**	**9,808,228**	11,344,160	8,323,750
VI. Net balance of cash and cash equivalents	**14,905,099**	**9,505,157**	14,075,822	9,808,228

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

* *Restricted items have been excluded from the opening and closing balances of cash and cash equivalents.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)

Currency: RMB'000

	2010									
	Attributable to equity holders of the parent									
	Share capital	Capital reserve	Restricted shares remaining in lock-up	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	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. Change 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 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 expense 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 dividend	—	—	—	—	(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

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

	2009									
	Attributable to equity holders of the parent									
	Share capital	**Capital reserve**	**Restricted shares remaining in lock-up**	**Surplus reserve**	**Retained profit**	**Proposed final dividend**	**Foreign currency translation difference**	**Sub-total**	**Minority interests**	**Total shareholders' equity**
I. Current year's opening balance	1,343,330	6,298,172	—	1,431,820	5,021,369	402,999	(248,146)	14,249,544	934,003	15,183,547
II. Change during the year										
(1) Net profit	—	—	—	—	2,458,121	—	—	2,458,121	237,540	2,695,661
(2) Other comprehensive income	—	—	—	—	—	—	28,103	28,103	(19,459)	8,644
Total comprehensive income	—	—	—	—	2,458,121	—	28,103	2,486,224	218,081	2,704,305
(3) Shareholder's injection and capital reduction										
1. Capital injection from shareholders	85,007	474,037	(447,235)	—	—	—	—	111,809	22,070	133,879
2. Equity settled share expense charged to equity	—	299,594	—	—	—	—	—	299,594	—	299,594
3. Others	—	80,000	—	—	—	—	—	80.000	(12,176)	67,824
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	73,383	(73,383)	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(402,999)	—	(402,999)	(38,379)	(441,378)
3. Proposed final dividend	—	—	—	—	(552,425)	552,425	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	402,999	(402,999)	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(6) Others										
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	1,095	—	—	—	—	—	1,095	—	1,095
III. Current year's closing balance	1,831,336	6,749,899	(447,235)	1,505,203	6,853,682	552,425	(220,043)	16,825,267	1,123,599	17,948,866

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun Mao

STATEMENT OF CHANGES IN EQUITY (AUDITED)

Currency: RMB'000

	2010							
	Share capital	**Capital reserve**	**Restricted shares remaining in lock-up**	**Surplus reserve**	**Retained profit**	**Proposed final dividend**	**Foreign currency translation difference**	**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. Change 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 injection and capital reduction								
1. Capital injection from shareholders	79,819	3,116,945	170,969	—	—	—	—	3,367,733
2. Equity settled share expense 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 dividend	—	—	—	—	(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

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun Mao

	2009							
	Share capital	Capital reserve	Restricted shares remaining in lock-up	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Total shareholders' equity
I. Current year's opening balance	1,343,330	6,271,137	—	769,603	1,992,735	402,999	(11,493)	10,768,311
II. Change during the year								
(1) Net profit	—	—	—	—	733,826	—	—	733,826
(2) Other comprehensive income	—	—	—	—	—	—	(3,320)	(3,320)
Total comprehensive income	—	—	—	—	733,826	—	(3,320)	730,506
(3) Shareholder's injection and capital reduction								
1. Capital injection from shareholders	85,007	474,037	(447,235)	—	—	—	—	111,809
2. Equity settled share expense charged to equity	—	299,597	—	—	—	—	—	299,594
3. Others	—	80,000	—	—	—	—	—	80,000
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	73,383	(73,383)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(402,999)	—	(402,999)
3. Proposed final dividend	—	—	—	—	(552,425)	552,425	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	402,999	(402,999)	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	24,108	—	—	—	—	—	24,108
III. Current year's closing balance	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun Mao

Consolidated Statement of Comprehensive Income
(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2010

	Note	**2010** *RMB'000*	2009 *RMB'000*
REVENUE	5	**70,263,874**	60,272,563
Cost of sales		**(48,598,958)**	(41,667,788)
Gross profit		**21,664,916**	18,604,775
Other income and gains		**2,639,807**	1,723,498
Research and development costs		**(7,091,971)**	(5,781,583)
Selling and distribution costs		**(8,890,214)**	(7,157,844)
Administrative expenses		**(2,524,001)**	(2,735,186)
Other expenses		**(753,907)**	(603,176)
Finance costs	7	**(728,552)**	(751,744)
Share of profits and losses of associates		**44,123**	26,002
PROFIT BEFORE TAX	6	**4,360,201**	3,324,742
Income tax expense	8	**(883,719)**	(629,081)
PROFIT FOR THE YEAR		**3,476,482**	2,695,661
Attributable to:			
Owners of the parent		**3,250,247**	2,458,121
Non-controlling interests		**226,235**	237,540
		3,476,482	2,695,661
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**41,399**	8,644
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**41,399**	8,644
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,517,881**	2,704,305
Attributable to:			
Owners of the parent		**3,301,525**	2,486,224
Non-controlling interests		**216,356**	218,081
		3,517,881	2,704,305
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic		**RMB1.17**	RMB0.93
Diluted		**RMB1.15**	RMB0.90

Details of the dividends payable and proposed for the year are disclosed in note 9 to the financial statements

Consolidated Statement of Financial Position
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2010

	Note	**2010**	2009
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**7,720,276**	6,057,574
Prepaid land lease payments		**758,805**	503,771
Intangible assets		**1,582,564**	877,397
Investment in a jointly-controlled entity		**2,255**	2,255
Investments in associates		**915,734**	438,027
Available-for-sale investments		**342,706**	253,760
Long-term trade receivables	11	**567,444**	383,749
Factored long-term trade receivables		**4,972,718**	2,968,629
Deferred tax assets		**655,245**	643,918
Pledged deposits		**1,090,086**	608,359
Total non-current assets		**18,607,833**	12,737,439
CURRENT ASSETS			
Prepaid land lease payments		**16,425**	10,980
Inventories		**12,103,670**	9,324,800
Amount due from customers for contract works		**14,208,039**	11,388,496
Trade and bills receivables	11	**18,853,802**	16,098,327
Factored trade receivables		**3,016,569**	2,870,221
Prepayments, deposits and other receivables		**3,196,314**	2,537,793
Derivative financial instruments		**123,365**	—
Pledged deposits		**407,009**	420,986
Time deposits		**71,099**	—
Cash and cash equivalents		**14,905,099**	14,075,822
Total current assets		**66,901,391**	56,727,425
CURRENT LIABILITIES			
Trade and bills payables	12	**25,497,683**	21,531,665
Amount due to customers for contract works		**2,772,669**	2,519,706
Other payables and accruals		**9,320,689**	7,285,229
Derivative financial instruments		**40,139**	—
Interest-bearing bank borrowings		**7,901,230**	6,846,468
Advances from factored trade receivables		**3,016,569**	2,870,221
Tax payable		**885,728**	1,147,347
Dividends payable		**136,302**	16,966
Total current liabilities		**49,571,009**	42,217,602
NET CURRENT ASSETS		**17,330,382**	14,509,823
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,938,215**	27,247,262

	Note	2010	2009
		RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,938,215**	27,247,262
NON-CURRENT LIABILITIES			
Bonds cum warrants		**3,755,790**	3,632,681
Interest-bearing bank borrowings		**1,719,310**	2,396,393
Deferred tax liabilities		**89,167**	3,924
Advances from factored long-term trade receivables		**4,972,718**	2,968,629
Financial guarantee contract		**3,689**	3,689
Provision for retirement benefits		**43,332**	38,028
Other long-term payables		**392,211**	255,052
Total non-current liabilities		**10,976,217**	9,298,396
Net assets		**24,961,998**	17,948,866
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**2,866,732**	1,831,336
Shares subject to lock-up under the Share Incentive Scheme		**(276,266)**	(447,235)
Equity component of bonds cum warrants		**—**	580,210
Reserves		**19,662,109**	14,308,531
Proposed final dividends		**841,297**	552,425
		23,093,872	16,825,267
Non-controlling interests		**1,868,126**	1,123,599
Total equity		**24,961,998**	17,948,866

Hou Weigui
Director

Shi Lirong
Director

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HKFRS 5 Amendments included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in Improvements to HKFRSs 2009, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidated and Separate Financial Statements

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases is revised as a consequence of the amendment to HKAS 17 Leases included in Improvements to HKFRSs 2009. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group does not have land leases in Hong Kong. The Group has reassessed its leases in Mainland China, previously classified as operating leases. The classification of leases in Mainland China remained as operating leases.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[5]
HKFRS 12 Amendments	Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues[1]
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

4. 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.

Year ended 31 December 2010

	Networks *RMB'000*	Terminals *RMB'000*	Telecommunications software systems, services and other products *RMB'000*	Total *RMB'000*
Segment revenue:				
Telecommunications system contracts	**41,990,133**	**—**	**6,898,968**	**48,889,101**
Sale of goods and services	**—**	**17,927,439**	**3,447,334**	**21,374,773**
	41,990,133	**17,927,439**	**10,346,302**	**70,263,874**
Segment results	**10,218,562**	**1,105,023**	**1,701,218**	**13,024,803**
Bank and other interest income				**101,020**
Dividend income and unallocated gains				**2,538,787**
Corporate and other unallocated expenses				**(10,619,980)**
Finance costs				**(728,552)**
Share of profits and losses of associates				**44,123**
Profit before tax				**4,360,201**
Segment assets	**36,764,820**	**7,898,628**	**9,058,794**	**53,722,242**
Investment in associates				**915,734**
Investment in a jointly-controlled entity				**2,255**
Corporate and other unallocated assets				**30,868,993**
Total assets				**85,509,224**
Segment liabilities	**10,274,691**	**700,294**	**2,531,665**	**13,506,650**
Corporate and other unallocated liabilities				**47,040,576**
Total liabilities				**60,547,226**
Other segment information:				
Impairment losses recognised in profit or loss	**188,403**	**80,438**	**46,422**	**315,263**
Depreciation and amortisation	**640,087**	**273,281**	**157,716**	**1,071,084**
Capital expenditure	**2,277,154**	**972,217**	**561,087**	**3,810,458**

Year ended 31 December 2009

	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	39,982,316	—	4,314,626	44,296,942
Sale of goods and services	—	13,071,519	2,904,102	15,975,621
	39,982,316	13,071,519	7,218,728	60,272,563
Segment results	8,814,294	1,738,784	1,358,831	11,911,909
Bank and other interest income				110,715
Dividend income and unallocated gains				1,612,783
Corporate and other unallocated expenses				(9,584,923)
Finance costs				(751,744)
Share of profits and losses of associates				26,002
Profit before tax				3,324,742
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Investments in associates				438,027
Investments in a jointly-controlled entity				2,255
Corporate and other unallocated assets				25,990,360
Total assets				69,464,864
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Corporate and other unallocated liabilities				40,819,814
Total liabilities				51,515,998
Other segment information:				
Impairment losses recognised in profit or loss	489,518	160,040	88,382	737,940
Depreciation and amortisation	632,195	206,685	114,141	953,021
Capital expenditure	1,650,277	539,529	297,954	2,487,760

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	*RMB'000*
The PRC (place of domicile)	**32,197,530**	30,404,275
Asia (excluding the PRC)	**12,687,912**	13,198,605
Africa	**10,639,010**	6,860,602
Europe/Americas and Oceania	**14,739,422**	9,809,081
	70,263,874	60,272,563

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2010	2009
	RMB'000	*RMB'000*
The PRC (place of domicile)	**7,576,126**	5,352,373
Asia (excluding the PRC)	**818,727**	633,843
Africa	**1,596,516**	1,436,800
Europe/Americas and Oceania	**70,276**	15,726
	10,061,645	7,438,742

5. REVENUE

	2010	2009
	RMB'000	*RMB'000*
Revenue		
Telecommunications system contracts	**48,889,101**	44,296,942
Sale of goods	**17,927,439**	13,073,619
Sale of services	**3,447,334**	2,902,002
	70,263,874	60,272,563

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2010	2009
	RMB'000	*RMB'000*
Cost of goods and services	**44,489,594**	38,285,841
Depreciation	**867,580**	771,671
Amortisation of land lease payments	**11,811**	38,510
Amortisation of intangible assets other than deferred development costs	**43,168**	42,422
Research and development costs:		
Deferred development costs amortised**	**148,525**	100,418
Current year expenditure	**7,091,971**	5,781,583
	7,240,496	5,882,001
Loss on financial derivative instruments	**—**	10,162
Impairment of trade receivables*	**342,972**	456,105
Provision for warranties**	**154,867**	72,896
Write-down/(reversal) of inventories to net realisable value**	**(27,709)**	281,835
Minimum lease payments under operating leases on land and buildings	**476,925**	359,287
Contingent rent receivable in respect of an operating lease	**(25,810)**	(43,587)
Auditors' remuneration	**6,991**	6,741
Staff costs:		
Wages, salaries, bonuses, allowances and welfare	**9,983,311**	8,202,158
Equity-settled share expense	**158,957**	299,594
Retirement benefit scheme contributions:		
Defined benefit pension scheme	**6,303**	2,788
Defined contribution pension scheme	**473,293**	404,608
	10,621,864	8,909,148
Foreign exchange loss*	**179,428**	—
Loss on disposal of items of property, plant and equipment*	**24,094**	26,692
Loss on disposal of subsidiaries*	**—**	6,069
Gain on deemed disposal of an associate	**(440,318)**	—
Loss on retirement and disposal of intangible assets*	**—**	52

* The impairment of trade receivables, foreign exchange loss, loss on disposal of items of property, plant and equipment, loss on disposal of subsidiaries and loss on retirement and disposal of intangible assets are included in "Other expenses" on the face of the consolidated statement of comprehensive income.

** The provision for warranties, amortisation of deferred development costs and write-down/(reversal of write-down) of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010	2009
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**233,209**	255,710
Interest on bonds cum warrants	**155,109**	150,029
Total interest expense on financial liabilities not at fair value through profit or loss	**388,318**	405,739
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	**340,234**	346,005
	728,552	751,744

8. INCOME TAX

	2010	2009
	RMB'000	*RMB'000*
Group:		
Current — Hong Kong	**2,347**	4,689
Current — Mainland China	**778,452**	611,029
Current — Overseas	**29,004**	258,111
Deferred	**73,916**	(244,748)
Total tax charge for the year	**883,719**	629,081

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. As a registered national-grade hi-tech enterprise in Shenzhen, the Company enjoyed an enterprise income tax rate of 15% for the years from 2008 to 2010.

9. DIVIDEND

	2010	2009
	RMB'000	*RMB'000*
Proposed final dividend — RMB0.3 per ordinary share (2009: RMB0.3)	**841,297**	552,425

For details of the proposed final dividend for the year, please refer to Note 13. The profit distribution proposal is pending approval by the general meeting of the Company.

10. EARNINGS PER SHARE

The basic earnings per share amount is computed by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 2,769,296,437 (2009: 2,629,037,409) in issue during the year, as adjusted to reflect the capitalisation issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are as follows:

	2010	2009
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**3,250,247**	2,458,121

	Number of shares	
	2010	2009
	'000 shares	*'000 shares*
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation#	**2,769,296**	2,629,037
Shares subject to lock-up under the Share Incentive Scheme##	**61,864**	104,606
Warrants attached to bonds###	**—**	—
Adjusted weighted average number of ordinary shares in issue	**2,831,160**	2,733,643

\# During the reporting period, 62,407,186 shares subjected to lock-up under Share Incentive Scheme are excluded from the calculation of basic earnings per shares.

\## 542,778 Subject Shares to be lapsed are excluded from 62,407,186 unlocking subject shares when calculating diluted earnings per share.

\### The ZXC1 warrants were exercised in February 2010. As at 31 December 2010, there is no outstanding warrant. The average market price of the ordinary shares for 2009 is less than the exercise price of the warrants, therefore, they are not dilutive and are not considered in the calculation of diluted earnings per share.

11. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills receivables	**21,604,193**	18,337,023	**27,690,234**	22,025,346
Bad debt provision	**(2,182,947)**	(1,854,947)	**(1,709,965)**	(1,459,189)
	19,421,246	16,482,076	**25,980,269**	20,566,157
Current portion	**(18,853,802)**	(16,098,327)	**(25,482,748)**	(20,229,505)
Long-term portion	**567,444**	383,749	**497,521**	336,652

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year depending on customers' creditworthiness except for certain overseas customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**15,933,535**	13,957,684	**16,780,050**	12,805,496
7 to 12 months	**2,563,041**	2,096,148	**3,732,292**	3,103,233
1 to 2 years	**877,934**	413,241	**2,328,878**	2,995,713
2 to 3 years	**46,736**	15,003	**1,809,245**	968,709
Over 3 years	**—**	—	**1,329,804**	693,006
	19,421,246	16,482,076	**25,980,269**	20,566,157
Current portion of trade and bills receivables	**(18,853,802)**	(16,098,327)	**(25,482,748)**	(20,229,505)
Long-term portion	**567,444**	383,749	**497,521**	336,652

The movements in the provision for impairment of trade and bills receivables are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**1,854,947**	1,702,254	**1,459,189**	1,370,103
Impairment losses recognised	**375,612**	519,459	**267,507**	395,054
Amount write off as uncollectible	**(14,972)**	(303,412)	**(489)**	(242,851)
Impairment losses reversed	**(32,640)**	(63,354)	**(16,242)**	(63,117)
At 31 December	**2,182,947**	1,854,947	**1,709,965**	1,459,189

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB616,067,000 (2009: RMB582,272,000) with a carrying amount before provision of RMB616,067,000 (2009: RMB582,272,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**3,839,776**	4,583,346	**4,573,317**	3,938,943
Less than one year past due	**13,406,522**	10,823,345	**15,538,415**	11,541,159
	17,246,298	15,406,691	**20,111,732**	15,480,102

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The balances due from subsidiaries, the controlling shareholder, associates and related companies included in the above are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Subsidiaries	**—**	—	**12,015,794**	8,515,630
The controlling shareholder	**—**	—	**—**	—
Associates	**3,977**	12,459	**3,571**	11,609
Related companies	**7,685**	—	**—**	889
	11,662	12,459	**12,019,365**	8,528,128

The balances are unsecured, interest-free, and on credit terms similar to those offered to the major customers of the Group.

12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**25,302,896**	21,161,940	**34,916,850**	27,278,626
7 to 12 months	**34,558**	41,328	**5,260**	3,123
1 to 2 years	**104,584**	276,089	**4,695**	529
2 to 3 years	**22,766**	24,525	**224**	288
Over 3 years	**32,879**	27,783	**24,830**	25,140
	25,497,683	21,531,665	**34,951,859**	27,307,706

The balances due to subsidiaries, the controlling shareholder, related companies and associates included in the above are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Subsidiaries	**—**	—	**23,143,813**	17,585,804
The controlling shareholder	**152,772**	85,566	**—**	—
Related companies	**122,967**	54,601	**79**	152
Associates	**69,613**	75,796	**—**	—
	345,352	215,963	**23,143,892**	17,585,956

The balances are unsecured, interest-free and are repayable on demand.

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

13. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the profit distribution proposal recommended by the Board, the Company will pay a cash dividend of RMB3 (before tax) for every 10 shares held on the basis of the total share capital of the Company as at 17 March 2011 less the number of restricted shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled in accordance with the implementation of the Share Incentive Scheme as at the A share record date for the purpose of the 2010 profit distribution (the "Record Date"), and will also issue 2 bonus shares for every 10 shares held to shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. In accordance with relevant provisions of the Share Incentive Scheme, application will be made for the third unlocking of 45% of the Subject Shares granted, and restricted shares remaining in lock-up shall not be entitled to the cash dividend. As at 17 March 2011, 62,407,186 restricted shares remained in lock-up. The number of shares entitled to the cash dividend under the 2010 profit distribution proposal will be 2,804,324,498 shares in case the third unlocking is not completed by the Record Date, or a maximum of 2,856,004,914 shares in case the third unlocking is completed by the Record Date. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.