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ZTE中兴

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)

2011 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 2011 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 (www.hkexnews.com.hk) and the Company’s website (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 Twenty-seventh meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons and authorised Mr. Wang Zhanchen, Director, to vote on his behalf.

1.4 The respective financial statements of ZTE Corporation and its subsidiaries (the “Group”) for the year ended 31 December 2011 were prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”) and with Hong Kong Financial Reporting Standards (“HKFRSs”) respectively, and had been audited by Ernst & Young Hua Ming and Ernst & Young, and an unqualified auditors’ report has been issued by each of them.

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 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	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

	Authorized representatives	Secretary to the Board of Directors/Company Secretary	Securities Affairs Representatives
Name	Shi Lirong, Feng Jianxiong	Feng Jianxiong	Xu Yulong, Cao Wei
Address	No. 55, Keji Road South, Shenzhen, Guangdong Province, People's Republic of China		
Tel	+86 755 26770282		
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E-mail	fengjianxiong@zte.com.cn		

3. ACCOUNTING AND BUSINESS DATA HIGHLIGHTS

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

Unit: RMB in millions

	For the year ended 31 December 2011	For the year ended 31 December 2010 (Restated)	Year-on-year change (%)	For the year ended 31 December 2009
Total operating revenue	86,254.5	69,906.7	23.39%	60,272.6
Operating profit	429.5	2,589.6	(83.41%)	2,064.2
Total profit	2,635.1	4,360.2	(39.56%)	3,324.7
Net profit attributable to shareholders of the listed company	2,060.2	3,250.2	(36.61%)	2,458.1
Net profit after extraordinary items attributable to shareholders of the listed company	1,067.2	2,732.9	(60.95%)	2,338.5
Net cash flow from operating activities	(1,812.2)	941.9	(292.40%)	3,729.3
	As at 31 December 2011	As at 31 December 2010	Year-on-year change (%)	As at 31 December 2009
Total assets	105,368.1	84,152.4	25.21%	68,342.3
Total liabilities	79,079.3	59,190.4	33.60%	50,393.5
Owners' equity attributable to shareholders of the listed company	24,231.7	23,093.9	4.93%	16,825.3
Share capital (<i>million shares</i>) ^{Note}	3,440.1	2,866.7	20.00%	1,831.3

Note: The total share capital of the Company was increased from 2,866,731,684 shares to 3,440,078,020 shares as a result of the implementation of the 2010 profit distribution and capitalisation of capital reserve plans during the reporting period. For details, please refer to the section headed "Changes in Share Capital and Information of Shareholders" in this report.

3.2. Major financial indicators of the Group prepared in accordance with PRC ASBEs

Item	For the year ended 31 December 2011	For the year ended 31 December 2010	Year-on-year change (%)	For the year ended 31 December 2009
Basic earnings per share (RMB/share) <i>Note 1</i>	0.61	0.98	(37.76%)	0.78
Diluted earnings per share (RMB/share) <i>Note 2</i>	0.61	0.96	(36.46%)	0.75
Basic earnings per share after extraordinary items (RMB/share) <i>Note 1</i>	0.31	0.82	(62.20%)	0.74
Weighted average return on net assets (%)	8.74%	15.32%	(6.58%)	15.83%
Weighted average return on net assets after extraordinary items (%)	4.53%	12.88%	(8.35%)	15.06%
Net cash flow from operating activities per share (RMB/share) <i>Note 3</i>	(0.53)	0.28	(289.29%)	1.18
	As at 31 December 2011	As at 31 December 2010	Year-on-year change (%)	As at 31 December 2009
Net asset per share attributable to shareholders of the listed company (RMB/share) <i>Note 3</i>	7.06	6.87	2.77%	5.31
Gearing ratio (%)	75.05%	70.34%	4.71%	73.74%

Note 1: Basic earnings per share for the period under review was calculated on the basis of the weighted average number of ordinary share capital, namely the total share capital at the end of the period after deduction of 9,125,893 restricted shares remaining in lock-up. Basic earnings per share for 2010 and 2009 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans.

Note 2: As certain Subject Share quotas under the Share Incentive Scheme of the Company have given rise to 6,874,194, 61,864,408 and 69,737,523 potentially dilutive ordinary shares for the reporting period, 2010 and 2009, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for 2010 and 2009 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

Note 3: Net cash flow from operating activities per share and net asset per share attributable to shareholders of the listed company for 2011 were calculated on the basis of the number of shares representing the total share capital at the end of the period after deduction of 9,125,893 restricted shares remaining in lock-up under the share incentive plan. The corresponding amounts for 2010 and 2009 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

Extraordinary items and amounts with PRC ASBEs

√ Applicable □ N/A

Unit: RMB in millions

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

3.3 Accounting Information Prepared in Accordance With HKFRSs

3.3.1 Major Financial Information of the Group Prepared in Accordance with HKFRSs

Unit: RMB in millions

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

Unit: RMB in millions

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

3.3.2 Major Financial Indicators of the Group Prepared in Accordance With HKFRSs

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

Note 1: Basic earnings per share for the period under review was calculated on the basis of the weighted average number of ordinary share capital, namely the total share capital at the end of the period after deduction of 9,125,893 restricted shares remaining in lock-up. The corresponding amount for the previous year have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans, basic earning per share for the previous year.

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

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 2011 calculated in accordance with PRC ASBES are entirely consistent with those calculated under HKFRSs.

4. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

4.1 Table of Changes in shareholdings

Unit: shares

	At the beginning of the year		Increase/decrease as a result of the change during the year (+, -)					At the end of the year	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve ^{Note1}	Others ^{Note2}	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	66,918,472	2.34%	—	—	13,416,689	(62,879,186)	(49,462,497)	17,455,975	0.51%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	60,141,711	2.10%	—	—	12,028,342	(63,044,160)	(51,015,818)	9,125,893	0.27%
Comprising: domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	60,141,711	2.10%	—	—	12,028,342	(63,044,160)	(51,015,818)	9,125,893	0.27%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	6,776,761	0.24%	—	—	1,388,347	164,974	1,553,321	8,330,082	0.24%
II. Shares not subject to lock-up	2,799,813,212	97.66%	—	—	559,929,647	62,879,186	622,808,833	3,422,622,045	99.49%
1. RMB ordinary shares	2,275,158,674	79.36%	—	—	454,998,740	62,879,186	517,877,926	2,793,036,600	81.19%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	524,654,538	18.30%	—	—	104,930,907	—	104,930,907	629,585,445	18.30%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	2,866,731,684	100.00%	—	—	573,346,336	—	573,346,336	3,440,078,020	100.00%

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

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

4.2 Table of changes in shares subject to lock-up

Unit: shares

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year ^{Note 1}	Increase in number of shares subject to lock-up during the year ^{Note 3}	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Hou Weigui	742,169	—	148,434	890,603	Restricted senior management shares	Note 1
Chen Jie	412,863	—	145,573	558,436	Restricted senior management shares	Note 1
Ni Qin	395,425	—	137,495	532,920	Restricted senior management shares	Note 1
Xu Huijun	390,488	84,397	174,618	480,709	Restricted senior management shares	Note 1
Yin Yimin	395,520	—	79,104	474,624	Restricted senior management shares	Note 1
Zhao Xianming	390,487	95,625	137,011	431,873	Restricted senior management shares	Note 1
Zeng Xuezhong	351,000	75,000	149,700	425,700	Restricted senior management shares	Note 1
Fan Qingfeng	329,062	56,250	149,062	421,874	Restricted senior management shares	Note 1
Pang Shengqing	329,502	82,376	143,925	391,051	Restricted senior management shares	Note 1
Ye Weimin	288,589	—	98,659	387,248	Restricted senior management shares	Note 1
Others	62,893,367	63,285,104	12,852,674	12,460,937	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Total	<u>66,918,472</u>	<u>63,678,752</u>	<u>14,216,255</u>	<u>17,455,975</u>	—	—

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

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

Note 3: The increase in the number of restricted shares was attributable to (1) the implementation of the 2010 profit distribution and capitalization of capital reserve plans during the reporting period; (2) the acquisition of A shares of the Company in the secondary market by certain senior management and Supervisors of the Company. For details, please refer to the “Announcement on the Purchase of the Company’s Shares by the Management of the Company” published by the Company on 27 June 2011. In accordance with relevant domestic regulations, up to 25% of the newly-held unrestricted shares may be transferred by the Directors, Supervisors and senior management during the year.

4.3 Shareholders

4.3.1 Top ten shareholders of the Company and top ten holders of shares not subject to lock-up as at 31 December 2011

Unit: shares

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

Shareholdings of top ten shareholders

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

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,535,379	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	77,335,839	A shares
4. CITIC Trust Co.,Ltd. — Wealth Management 06	58,194,000	A shares
5. Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	34,021,577	A shares
7. Bank of China-E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	28,490,925	A shares
8. China Life Insurance(Group) Company — Traditional — General Insurance Products	25,569,044	A shares
9. Taikang Life Insurance Co.,Ltd.-Dividend — Individual Dividend — 019L — FH002 Shen	24,374,736	A shares
10. Industrial and Commercial Bank of China -Bosera Third Industry Growth Stock Securities Investment Fund	20,572,134	A shares

<p>Descriptions of any connected party relationships or concerted party relationships among the above shareholders</p>	<ol style="list-style-type: none"> There were no connected party relationships or concerted party relationships between Zhongxingxin and the rest of the top ten shareholders and the rest of the top ten shareholders not subject to lock-up listed above. The 3rd and 6th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. The 8th ranking shareholder was managed by China Life Insurance Company (Group) Limited, the controlling shareholder of China Life Insurance Company Limited. 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.
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	Name of shareholder	Designated period of shareholding
Agreed period of shareholding for strategic investors or legal persons participating in the placing of new shares	None	None

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

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

4.4. Controlling shareholders and de facto controllers

4.4.1 Changes in controlling shareholder and de facto controller

Applicable N/A

4.4.2 Controlling shareholders and de facto controllers

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

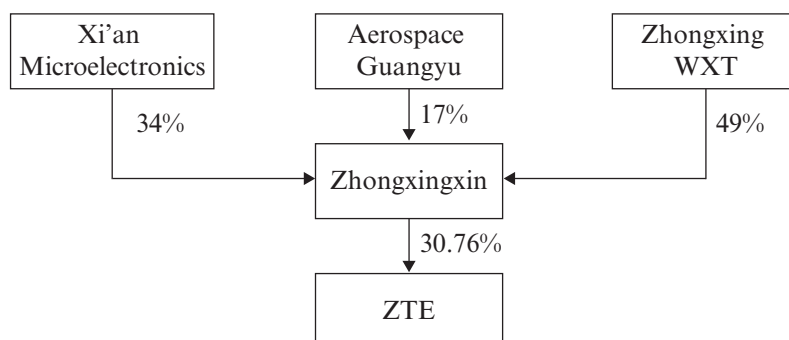
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute, which was established in 1965 with a start-up capital of RMB198,530,000. Its organization number is H0420141-X. The legal representative of the institute is Zhang Junchao. It is the only specialized research institute in China which integrates and complements the research, development and production of semiconductor integrated circuits, mixed integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Xie Weiliang and the registered capital amounts RMB17,950,000. The organization code is 19217503-1. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), raw materials for textile, raw materials for chemical fibre, apparel, textile and warehousing. (Import and export operations are conducted in accordance with relevant regulations). Import and export operations (which are conducted in accordance with Shen Mao Jin [2000] No. 50 Qualifications Certificate).

Zhongxing WXT is a private high-technology enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. Its organization number is 27941498-X. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment.

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2011:



4.4.3 Control of the Company by de facto controllers by way of trust or other means of asset management

□ Applicable √ N/A

5. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

5.1 Changes in the Shareholdings and Annual Remuneration of Directors, Supervisors and Senior Management

Name	Title	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Reason For change	Total Remuneration received from the Company during the reporting period (RMB10,000) (before tax)	Shares granted under the Share Incentive Scheme (restricted A shares)			Number of Restricted shares held at the end of the reporting period ^{Note 4}	Whether remuneration is received from shareholder entities or other connected entities
									Number of Restricted shares granted (share)	Number of restricted shares granted during the period (shares)	Grant price of restricted shares (cum- right basis) (RMB)			
Hou Weigui	Chairman	Male	70	3/2010	3/2013	989,560	1,187,472	Note 1	115.1	0	0	—	0	No
Lei Fanpei	Vice Chairman	Male	49	3/2010	2/2012	0	0	—	10.0	0	0	—	0	Yes
Xie Weiliang	Vice Chairman	Male	56	3/2010	3/2013	27,300	32,760	Note 1	10.0	32,760	0	30.05	0	Yes
Wang Zhanchen	Director	Male	59	3/2010	3/2013	0	0	—	10.0	0	0	—	0	Yes
Zhang Junchao	Director	Male	58	3/2010	3/2013	27,300	32,760	Note 1	10.0	32,760	0	30.05	0	Yes
Dong Lianbo	Director	Male	55	3/2010	3/2013	27,300	32,760	Note 1	10.0	32,760	0	30.05	0	Yes
Shi Lirong	Director and President	Male	48	3/2010	3/2013	300,425	360,511	Note 1	302.3	0	0	—	0	No
Yin Yimin	Director	Male	48	3/2010	3/2013	527,361	632,833	Note 1	37.4	0	0	—	0	No
He Shiyong	Director and Executive Vice President	Male	45	3/2010	3/2013	287,450	344,940	Note 1	148.2	0	0	—	0	No
Qu Xiaohui	Independent Non-executive Director	Female	58	3/2010	3/2013	0	0	—	13.0	0	0	—	0	No
Wei Wei	Independent Non-executive Director	Male	46	3/2010	3/2013	0	0	—	13.0	0	0	—	0	No
Chen Naiwei	Independent Non-executive Director	Male	54	3/2010	3/2013	0	0	—	13.0	0	0	—	0	No
Tan Zhenhui	Independent Non-executive Director	Male	67	3/2010	3/2013	0	0	—	13.0	0	0	—	0	No
Timothy Alexander Steinert	Independent Non-executive Director	Male	52	6/2010	3/2013	0	0	—	13.0	0	0	—	0	No
Zhang Taifeng	Chairman of the Supervisory Committee	Male	70	3/2010	3/2013	332,187	398,625	Note 1	115.1	0	0	—	0	No
He Xuemei	Supervisor	Female	42	3/2010	3/2013	0	30,347	Note 1, 2	61.7	0	0	—	0	No
Zhou Huidong	Supervisor	Male	36	6/2010	3/2013	40,131	78,158	Note 1, 2	67.3	48,158	0	30.05	0	No
Wang Yan	Supervisor	Female	47	3/2010	3/2013	0	0	—	0	0	0	—	0	Yes
Xu Weiyang	Supervisor	Female	49	3/2010	3/2013	7,666	9,199	Note 1	65.0	0	0	—	0	No
Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	49	3/2010	3/2013	322,850	387,421	Note 1	116.5	0	0	—	0	No
Xie Daxiong	Executive Vice President	Male	48	3/2010	3/2013	414,410	498,492	Note 1, 2	130.9	327,600	0	30.05	0	No
Tian Wenguo	Executive Vice President	Male	43	3/2010	3/2013	233,316	363,979	Note 1, 2	131.3	327,600	0	30.05	0	No
Qiu Weizhao	Executive Vice President	Male	48	3/2010	3/2013	273,000	411,600	Note 1, 2	125.2	327,600	0	30.05	0	No
Fan Qingfeng	Executive Vice President	Male	43	3/2010	3/2013	363,750	562,500	Note 1, 2	126.9	491,400	0	30.05	0	No
Chen Jie	Senior Vice President	Female	53	3/2010	3/2013	550,485	744,583	Note 1, 2	159.9	327,600	0	30.05	0	No
Zhao Xianming	Senior Vice President	Male	45	3/2010	3/2013	393,150	431,873	Note 1, 2	109.7	589,680	0	30.05	0	No
Pang Shengqing	Senior Vice President	Male	43	3/2010	3/2013	329,502	521,402	Note 1, 2	117.8	491,400	0	30.05	0	No
Zeng Xuezhong	Senior Vice President	Male	38	3/2010	3/2013	368,000	567,600	Note 1, 2	146.9	491,400	0	30.05	0	No
Xu Huijun	Senior Vice President	Male	39	3/2010	3/2013	408,121	510,945	Note 1, 2	118.5	589,680	0	30.05	0	No
Ye Weimin	Senior Vice President	Male	46	3/2010	3/2013	384,786	516,331	Note 1	122.6	327,600	0	30.05	0	No
Ni Qin	Senior Vice President	Male	52	3/2010	3/2013	527,233	710,560	Note 1	140.2	327,600	0	30.05	0	No
Wu Zengqi	Senior Vice President	Male	47	3/2010	3/2013	336,375	486,570	Note 1, 2	128.2	491,400	0	30.05	0	No
Zhu Jinyun	Senior Vice President	Male	40	3/2010	3/2013	304,450	482,460	Note 1, 2	90.5	456,675	0	30.05	0	No
Zhang Renjun	Senior Vice President	Male	43	3/2010	3/2013	0	0	—	94.8	0	0	—	0	No
Feng Jianxiong	Secretary to the Board of Directors	Male	38	3/2010	3/2013	262,500	315,000	Note 1	84.1	327,600	0	30.05	0	No
Total	—	—	—	—	—	8,038,608	10,651,681	—	2,971.1	6,041,273	0	—	0	—

Note 1: Capitalisation of capital reserve plans (creation of 2 shares for every 10 shares) were implemented on 7 July 2011. The shareholdings of Directors, supervisors and senior management have been increased accordingly.

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

Note 3: None of the Directors, Supervisors or senior management of the Company held any H shares in the issued capital of the Company during the reporting period.

Note 4: The third unlocking of shares granted to the Directors and senior management of the Company under the Share Incentive Scheme was completed on 21 July 2011. For details, please refer to the Announcement of the Company on the Completion of the Third Unlocking of Subject Shares Granted under the First Award of the Phase I Share Incentive Scheme published on 19 July 2011.

5.2 Directors' Attendance at the Board Meetings

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

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

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

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

5.3 Interests of Directors, Supervisors and Chief Executive Officer in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2011 are set out in the section of this annual report headed "5.1 Changes in the Shareholdings and Remuneration of the Company's Directors, Supervisors and Senior Management".

Save as disclosed above, as at 31 December 2011, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the 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 2011, none of the Directors, Supervisors or the Chief Executive Officer, 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

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

Overview of the global telecommunications industry

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

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

Operating Results of the Group for 2011

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

By market

The domestic market

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

The international market

During the reporting period, the Group reported operating revenue of RMB46.758 billion from the overseas market, accounting for 54.21% of the Group overall operating revenue and representing a year-on-year growth of 24.00%. Competition was intense in the international telecommunications industry, with increasing conflicts in intellectual property rights. The Group endeavoured to enhance its market position by taking advantage of changes in the competitive landscape, employing various means in vigorous international market development. While reinforcing our position in emerging markets, we continued to make breakthroughs with mainstream global carriers through cooperation with these operators on different products. As a result of these efforts, we sustained relatively fast year-on-year growth in the Group's revenue from international business.

By product

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

Carriers' Networks

During the period under review in 2011:

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

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

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

Terminals

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

Telecommunications software systems, services and other products

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

6.2 Principal businesses by industry, product and geography under PRC ASBEs

Unit: RMB in millions

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

6.3 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	123,365	(125,346)	—	—	95,618
Including: derivative financial assets	123,365	(114,531)	—	—	8,438
2. Available-for-sale financial assets	—	—	—	—	—
Sub-total of financial assets	123,365	(125,346)	—	—	95,618
Financial liabilities ^{Note 1}	40,139	36,671	(4,120)	—	5,305
Investment properties	—	—	—	—	—
Productive living assets	—	—	—	—	—
Others	—	—	—	—	—
Total	—	(88,675)	(4,120)	—	—

Note 1: Financial liabilities comprised derivative financial liabilities.

6.4. Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	7,947	888	—	—	8,438
Including: derivative financial assets	7,947	888	—	—	8,438
2. Loans and receivables	16,717,900	—	—	(394,658)	37,049,026
3. Available-for-sale financial assets	47,503	—	—	—	184,974
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	16,773,350	888	—	(394,658)	37,242,438
Financial liabilities	6,360,143	36,671	(4,120)	—	11,818,759

6.5. 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 this annual report.

Unit: RMB in millions

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

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

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

The Group reported RMB86,254.5 million in operating revenue for 2011, a 23.4% growth as compared to last year. Our international business sustained stable growth, with operating revenue growing 24.0% to RMB46,757.9 million. Analysed by product, significant year-on-year growth was reported for carriers' networks, terminals, and telecommunications software systems, services and other products.

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

The increase in operating revenue from the Group's terminal product segment was driven mainly by growth in sales of various terminal products in the domestic as well as overseas markets.

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

Cost of sales and gross profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

Cost of sales of the Group for 2011 increased 28.7% as compared to last year to RMB62,086.4 million. The Group's overall gross profit margin of 28.0% was 3 percentage point lower as compared to last year, reflecting mainly the decline in the gross profit margin of terminals.

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

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

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

Other income and gains

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

Research and development costs

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Profit from operating activities

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

Finance costs

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

Tax

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

Profit attributable to minority interests

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

Other comprehensive income

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

Capital management policy

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

Debt -equity ratio and the basis of calculation

Debt-equity ratio is calculated by dividing interest-bearing liabilities by the sum of interest-bearing liabilities and equity (including minority interests). The Group's debt-equity ratio for 2011 was 46.3%, increasing by 11.4 percentage points as compared to 34.9% for 2010. The increase was mainly attributable to the increase in the Company's bank loans to replenish working capital.

Liquidity and capital resources

In 2011, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements.

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

Cash Flow Data

Unit: RMB in millions

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

Operating activities

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

Investing activities

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

Financing activities

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

Capital expenditure

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

Unit: RMB in millions

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

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

Indebtedness

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

Contractual obligations

Unit: RMB in millions

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

Contingent liabilities

Unit: RMB in millions

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

Capital commitments

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

Item	<i>Unit: RMB in millions</i>	
	31 December 2011	2010
Land and buildings: Contracted, but not provided for	837.0	747.5
Investment in associates: Contracted, but not provided for	0.9	76.2
Land and buildings: Authorised, but not contracted	21,752.0	14,227.4

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

Details of the subsidiaries, jointly-controlled entities and associates of the Group as at 31 December 2011 are set out in notes 19, 20 and 21 to the financial statements prepared in accordance with HKFRSs.

Prospects for New Business

Details of the prospects for new business of the Group are set out in the “Chairman’s Statement” in this Annual Report.

Employees

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2011 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees” and “Corporate Governance Structure” in this Annual Report.

Charges on Assets

Details of charges on the Group’s assets as at 31 December 2011 are set out in note 33 to the financial statements prepared under HKFRSs.

Plans for Material Investments or Acquisition of Capital Assets

Details of the Group’s material investments and their performance and prospects as at 31 December 2011 are set out section headed “Report of the Board of Directors” in this Annual Report.

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

Market Risks

For details of the Group’s exposure to market risks, please refer to the section 6.12.2 in this annual report.

6.6 Use of proceeds

6.6.1 Table of use of proceeds

Applicable N/A

Changes in projects

Applicable N/A

6.6.2 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 issued prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company’s internal resources. For details, please refer to the 2009 Annual Report of the Company and the “Verification report on the Deposit and Application in 2009 of Issue Proceeds of ZTE Corporation” published in newspapers and websites designated for information disclosure on the same date.

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

6.7 Investments using funds other than issue proceeds

Applicable N/A

6.7.1 Establishment of Group Finance Company

In order to strengthen the centralised treasury management of the Group and enhance the efficiency of its fund application, it was approved at the Eleventh Meeting of the Fifth Session of the Board of Directors and the Third Extraordinary General Meeting 2010 of the Company that the Company would make a capital contribution of RMB1,000 million (including USD20 million) for the establishment of ZTE Finance Co., Ltd.

On 9 February 2011, the China Banking Regulatory Commission (“CBRC”) issued Yin Jian Fu [2011] No. 41 Document “Approval Reply of CBRC Concerning the Establishment of A Group Finance Company by ZTE Corporation” (銀監複[2011]41號文件《中國銀監會關於中興通訊股份有限公司籌建企業集團財務公司的批復》), granting approval to the establishment of a group

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

For details, please refer to the “Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors”, “Announcement of External Investment — the Establishment of ZTE Finance Co., Ltd”, “Announcement in respect of the Resolutions of the Third Extraordinary General Meeting of 2010,” “Announcement on Approval Received for the Establishment of A Group Finance Company” and “Announcement on the Approval of Business Commencement of ZTE Group Finance Co., Ltd” dated 12 October 2010, 30 November 2010 and 15 February 2011, and 13 July 2011, respectively.

6.7.2 Investment in a research and development (“R&D”) base in Yuhuatai, Nanjing

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

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

6.8 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

6.9 Board of Directors’ proposal for profit distribution or capitalisation of capital reserve for the current year

Applicable N/A

6.9.1 Proposal for profit distribution for 2011

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

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB1,982,429,000. The Board of Directors of the Company has recommended as follows:

Proposed profit distribution for 2011: A cash dividend of RMB2 (including tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,440,078,020 shares as at 31 December 2011 less the number of Subject Shares remaining in lock-up under the Share Incentive Scheme as at the A share record date for the purpose of the 2011 profit distribution (the "Record Date"). As at 28 March 2012, 9,125,893 registered Subject Shares under the Share Incentive Scheme remained in lock-up. In accordance with relevant provisions of the Share Incentive Scheme, restricted shares remaining in lock-up shall not be entitled to the cash dividend. The number of shares entitled to the cash dividend under the 2011 profit distribution proposal will be 3,430,952,127 shares, on which basis the 2011 profit distribution plan will be implemented.

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

Shareholders are recommended to consult their tax advisers regarding PRC, Hong Kong and other tax implications arising from their ownership and disposal of H Shares of the Company.

6.9.2 Implementation of our cash dividend distribution policy during the reporting period

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

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

6.9.3 Profit distribution or capitalisation of capital reserve in the past three years

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

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

Unit: RMB in ten thousands

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

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

Applicable N/A

6.10 Reasons of significant changes in profit mix, principal businesses and their structures and profitability of principal businesses during the reporting period as compared to the previous reporting period

Applicable N/A

During the reporting period, there was no significant change in the Company's principal business and its structures and profitability. The change in profit mix is explained as follows:

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

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

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

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

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

6.11 Purchase, sale and redemption of shares

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

6.12 Business outlook and risk exposures for 2012

6.12.1 Business outlook for 2012

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

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

6.12.2 Risk Exposure

(1) Interest rate risk

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

(2) Foreign exchange risk

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. Exchange rate volatility has recently escalated under the impact of the international

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

(3) Risk associated with intellectual property rights

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

(4) Credit risk

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group has stepped up with the building of its international customer credit rating and management system to mitigate the impact of the aforesaid.

(5) Country risk

Given the complex nature of current international economic and political conditions, the Group will continue to be exposed to debtors' risks, trade protection, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. As such, a very high level of operational and risk control capabilities is required.

7. MATERIAL MATTERS

7.1 Acquisition of assets

Applicable N/A

7.2 Disposal of assets

Applicable N/A

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

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

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

Unit: RMB in ten thousands

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

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

Save as aforesaid, there were no acquisition or disposal of assets or mergers of the Group taking place during the reporting period or having taken place in previous periods and subsisted in the reporting period.

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
Total amount of third-party guarantee approved during the reporting period (A1)				0	Total amount of third-party guarantee actually incurred during the reporting period (A2)			0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)			RMB68,902,700		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)			RMB68,902,700

Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether Fully performed	Whether provided on behalf of connected parties (Yes/ No)
ZTE (H.K.) Limited ^{Note 1}	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability guarantee	6.6 years	No	No
Congo-Chine Telecom S.A.R.L. ^{Note 2}	17 August 2007, 200738	USD105 million	8 November 2007	USD8,405,000	Guarantee by pledge	7.5 years	Yes	No
Closed Joint-Stock Company CJSC TK Mobile ^{Note 3}	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia ^{Note 3}	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability guarantee	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under “Framework Agreement for Technical Support” is completed	No	No
PT. ZTE Indonesia ^{Note 3}	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability guarantee	3.6 years or the date on which performance of obligations of PT. ZTE Indonesia under “Framework Agreement for Technical Support” is completed, whichever later	No	No
ZTE Telecom India Private Limited ^{Note 4}	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability guarantee	From maturity to the date on which performance of obligations of ZTE India under “Framework Agreement for Infrastructure Network Construction” is completed	No	No
ZTE Telecom India Private Limited ^{Note 4}	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability guarantee	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 (H.K.) Limited ^{Note 5}	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability guarantee	From 8 July 2011 until the date on which a period of 60 months has lapsed	No	No
ZTE France SASU ^{Note 6}	14 December 2011, 201152	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance obligations of ZTE France under “SMS Contract” and “PATES Contract” expire or the termination date (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)			RMB5,752,435,000	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			RMB5,670,810,000	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)			RMB6,707,651,400	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)			RMB6,163,090,300	
Total amount guaranteed by the Company (sum of the two categories aforesaid)								
Total amount of guarantee approved during the reporting period (A1+B1)			RMB5,752,435,000	Total amount of guarantee actually incurred during the reporting period (A2+B2)			RMB5,670,810,000	
Total amount of guarantee approved as at the end of the reporting period (A3+B3) ^{Note 1}			RMB 6,757,651,400	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) ^{Note 1}			RMB6,213,090,300	
Total guaranteed amount as a percentage of net assets of the Company (A4+B4)								25.64%
Including:								
Amount of guarantees provided on behalf of shareholders, effective controllers and their connected parties (C)								0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)								RMB6,163,090,300
Amount of total guarantee exceeding 50% of net assets (E)								0
Aggregate amount of the three guarantee amounts stated above (C+D+E)								RMB6,163,090,300
Statement on potential joint liability involved in outstanding guarantees								N/A

- Note 1:* Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantees approved as at the end of the reporting period and the total balance of actually incurred as at the end the reporting period.
- Note 2:* The Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine by pledging its 51% equity interests in Congo-Chine. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. On 21 October 2011, the Company sold its 51% equity interests in Congo Chine to Pan Communication Investments and Atlas International Investments (both of which are wholly-owned subsidiaries of France Telecom) and the transfer of equity ownership was completed on the same date. The Company was fully discharged from its obligations under a guarantee provided in connection with Congo Chine.
- Note 3:* It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile (“CJSC TK Mobile”) held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US\$40 million be provided by the Company for PT. ZTE Indonesia (“ZTE Indonesia”), a wholly-owned subsidiary and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US\$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the First Extraordinary General Meeting of 2009. As at the date of this report, a US\$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company’s banking credit facilities has been executed and the US\$40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile’s bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.
- Note 4:* It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than US\$30 million be provided by the Company for ZTE Telecom India Private Limited (“ZTE India”), a wholly-owned subsidiary of the Company and application be made by the Indian local bank to the Indian local bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding US\$3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the second extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the US\$30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the US\$3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.
- Note 5:* On 8 July 2011, ZTE (H.K.), a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. On 8 July 2011, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in respect of the syndicate loan for ZTE (H.K.). The period of guarantee shall commence on the date on which the guarantee becomes effective and ends on the date which is 60 months after the date of the syndicate loan agreement. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors held on 8 April 2011. As the gearing ratio of ZTE (H.K.) is above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company held on 17 May 2011 and was considered and approved.
- Note 6:* It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France, a wholly-owned subsidiary of the Company under the 2010 SMS Service Execution Contract

and the PATES-NG Execution Contract. As at the date of this report, the guarantee provided by the Company in respect of the performance obligations of ZTE France has yet to be performed as the relevant agreement has yet to be signed.

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

Note 8: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board in order to be effective. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting for approval following approval by the Board of Directors in order to be effective.

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	As a	Settlement	Whether different from estimated conditions
						January to December 2011 (excluding VAT) (RMB10,000)	percentage of transactions in the same classification		
Purchase of raw materials	ZTE Kangxun	Zhongxingxin and subsidiaries Shenzhen Zhongxing Xindi, Zhongxing Xinyu, Zhongxing Xinzhou	Various products such as cabinets, cases, distribution frames, flexible circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets and accessories: \$1-\$31,000 per unit; Cases and accessories: \$1-\$17,000 per unit depending on level of sophistication; Distribution frames and accessories: \$2- \$150,000 per unit depending on level of sophistication and functional features; Soft circuit boards: \$0.3-\$50 per unit depending on measurement, technical parameters and functional features; Shelter: \$20,000-\$100,000 per unit, depending on measurement, materials used and configuration.	52,961.91	1.02%	Commercial acceptance bill	No
		Mobi Antenna Technologies Co., Ltd. ("Mobi Antenna")	Various products such as communications antennas and radio frequency transmitter	Consistent with market prices (as per contract)	Communication antenna: \$320-\$2,500 per piece and radio frequency transmitter, \$350-\$4,100 per unit, depending on technical parameters and functional features.	27,395.07	0.53%	Commercial acceptance bill	No
Property leasing	ZTE Corporation	Shenzhen Zhongxing Development Company Limited ("Shenzhen Zhongxing Development") (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 32,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (property management undertaken by ZTE and no management fees are payable)	4,059.28	7.81%	Tele-transfer	No
		Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development") (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	547.98	1.06%	Tele-transfer	No

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

At the Twenty-Fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, the “Resolution of the Company on a Connected Transaction - Property Lease” was considered and passed, whereby the execution of Property Lease Contract between the Company and Chongqing Zhongxing Development Company Limited (a connected party) for a term of three years from 1 January 2012 to 31 December 2014 in respect of the lease by the Company of the property located at No.3 Xing Guang Wu Road, North New District, Chongqing with a leased area of 20,000 sq.m. at a rental price of \$45/sq.m. per month and a property management fee of \$2.5/sq.m. per month, subject to an annual rental cap of RMB11.40 million was approved. For details, please refer to the “Continuing Connected Transactions — Tenancy Agreement” published by the Company on 13 December 2011.

Connected transactions involving sales of products or provision of labour services to the Zhongxingxin and its subsidiaries by the Company during the year amounted to RMB3,115,050.

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 *Investment management and entrusted loans*

Applicable N/A

7.6 *Derivative investments*

Applicable N/A

Principal terms of a derivative investment contract include but not limited to: the source of funds, parties to the contract, investment shares, investment period, product types, whether litigation is involved, whether there are disguised applications of issue proceeds and review of the investment by competent decision making authorities)

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

In 2011, the Company conducted derivative investment using its internal funds through either ZTE, ZTE Kangxun or ZTE (H.K.). Contract types included fixed income derivatives and value-protection. Fixed income derivatives had an investment term of 1 year or less. Value protection derivatives included USD forwards, Euro forwards and USD interest rate swap. The investment term of USD forwards and Euro forwards was 1 year or less. The investment term of USD interest rate swaps matched the medium- and long-term debts of ZTE (H.K.).

The derivative investment quota of 2011 was considered and passed by the Sixteenth meeting of the Fifth session of the Board of Directors and 2010 annual general meeting of the Company. For details, please refer to the “Announcement of Resolutions of the Sixteenth Meeting of the Fifth Session of the Board of Directors” published by the Company on 17 March 2011 and “Announcement on the Resolutions of the 2010 General Meeting” published by the Company on 17 May 2011. The derivative investments made by the Company have not been involved in litigation or disguised applications of issue proceeds.

Derivative investments conducted by the Company during 2011 included fixed income derivatives and value-protection. The major risks and control measures are discussed as follows:

1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. Gains or losses arising from the difference between the agreed exchange rate for transaction and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.

2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivatives investments of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small.
3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks.
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives may result in operational risks in actual operation; Obscure terms in the trade contract may result in legal risks.
5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.

Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives

The gains from investments in derivatives during the reporting period was recognised by the Company. Total gains recognised for the reporting period amounted to RMB125.53 million, comprising exchange gains of RMB74.84 million, losses from fair-value change of RMB77.86 million and recognized investment gains of RMB128.55 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.

Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period

There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.

Specific opinion of Independent Non-executive Directors, sponsors or financial advisors on the Company's derivative investments and risk control

Independent Non-executive Directors' Opinion:

The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and dedicated staff. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

Positions in derivative investments at the end of the reporting period

Unit: RMB in thousands

Type of contract <i>Note 1</i>	Balance of contract	Closing balance of contract	Gain/loss during the Reporting period	Contract amount as a percentage of the Company's net assets as at the end of the period <i>Note 2</i>
Fixed-income derivative investment	4,473,943	2,705,863	96,131	11.17%
Value-protection derivative investment	1,968,858	2,669,974	29,401	11.02%
Total	6,442,801	5,375,837	125,532	22.19%

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

Note 2: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the period.

7.7 Performance of Undertakings

Applicable N/A

Undertakings	Given by:	Details of undertaking	Performance
Other undertaking (including additional undertakings)	Zhongxingxin	Zhongxingxin, the controlling shareholder of the Company, sold down shares in the Company on 13 June 2011 via the securities trading system of Shenzhen Stock Exchange. Zhongxing had undertaken that any disposal of shares via the securities trading system of Shenzhen Stock Exchange during the period of six consecutive months from the date of the said sell-down shall be less than 5% of the total share capital of the Company.	Zhongxingxin had been in compliance with its undertaking

7.8 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 2011 annual report of the Company.

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

7.9.1 Investment in securities

√ Applicable □ N/A

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

Unit: RMB in ten thousands

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

2. Details in investment in securities

Nationz Technologies, the company with our equity investment, issued its shares under initial public offering which was listed on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for listing and circulation as from 3 May 2011. Pursuant to the “Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc.” passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies at an appropriate timing and a reasonable price range was approved.

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

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

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

7.9.2 Equity interests in other listed companies

Applicable N/A

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

Applicable N/A

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

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

Unit: RMB in ten thousands

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

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

7.9.4 Dealings in shares of other listed companies

Applicable N/A

7.9.5 Other comprehensive income

Unit: RMB in ten thousands

	2011	2010
Change in the fair value of hedging instruments	(412)	—
Difference arising from foreign currency translation	(34,606.7)	4,139.9
Total	<u>(35,018.7)</u>	<u>4,139.9</u>

8. REPORT OF THE SUPERVISORY COMMITTEE

8.1 Supervisory Committee Meetings

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

1. The Eighth Meeting of the Fifth session of the Supervisory Committee of the Company was held on 17 March 2011, at which the “2010 Work Report of the Supervisory Committee of the Company,” “Full Text of the 2010 Annual Report of the Company,” “Summary of the 2010 Annual Report and Results Announcement of the Company,” “2010 Financial Report of the Company as Audited by the PRC and Hong Kong Auditors,” “2010 Final Financial Accounts of the Company,” “Resolution of the Company on the Write-off of Bad Debt for 2010,” “Proposed Profit Distribution and Capitalisation of Capital Reserve of the Company for 2010,” “Report of the Audit Committee of the Board of Directors on the 2010 Audit of the Company Performed by the PRC and Hong Kong Auditors,” “Resolution of the Company on Fixing the Audit Fees of the PRC and Hong Kong Auditors of the Company for 2010,” “Resolution on the Appointment of the PRC and Hong Kong Auditors of the Company for 2011,” “Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2011” and “2010 Self-assessment Report on Internal Control of the Company” were considered and approved. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on <http://cninfo.com.cn> on 18 March 2011.
2. The Ninth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 19 April 2011, at which the “2011 First Quarterly Report of the Company” was reviewed and approved. As it was the only resolution reviewed at the meeting, it was exempted from announcement as notified by the Shenzhen Stock Exchange.
3. The Tenth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 8 July 2011, at which the “Resolution of the Company on the Third Unlocking of Subject Shares under the First Award of the Phase I Share Incentive Scheme” and the “Resolution of the Company on the Verification of the Scheme Participant List for the Third Unlocking of the Subject Shares under the First Award of the Phase I Share Incentive Scheme” were considered and passed. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on <http://cninfo.com.cn> on 9 July 2011.

4. The Eleventh Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 30 August 2011, at which the “Full Text and Summary of the 2011 Interim Report and the Results Announcement of the Company,” “2011 Interim Final Financial Accounts,” “Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 31 December 2011,” “Resolution on the Revision of the Cap for the Aggregate Amount of Transactions with Connected Parties in 2011,” “Resolution of the Company on Continuing Connected Transactions” and “Resolution of the Company on the Continued Purchase of Liability Insurance for Directors, Supervisors and Senior Management” were considered and approved. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on <http://cninfo.com.cn> on 31 August 2011.
5. The Twelfth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 27 October 2011, at which the “2011 Third Quarterly Report of the Company,” “Resolution of the Company on Continuing Connected Transactions” and “Resolution of the Company on the Appointment of the Internal Control Audit Firm and Fixing the Internal Control Audit Fees for 2011” was considered and approved. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on <http://cninfo.com.cn> on 28 October 2011.
6. The Thirteenth Meeting of the Fifth Session of the Supervisory Committee of the Company was held on 13 December 2011, at which the “Resolution of the Company on the Second Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme” and the “Resolution of the Company on the Verification of the Scheme Participant List for the Second Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme” “Resolutions of the Company on Connected Transactions regarding the Lease of Property” and “Resolution on the Revision of the Cap for the Aggregate Amount of Transactions with Connected Parties in 2011 were considered and passed. An announcement containing the said resolutions of the meeting of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News and posted on <http://cninfo.com.cn> on 14 December 2011.

8.2 Opinion of the Supervisory Committee on the Company’s affairs during the reporting period

Having conducted diligent supervision and inspection in relation to matters such as the legal compliance of the Company’s operation, the financial conditions of the Company and connected transactions during the reporting period in strict accordance with the provisions of pertinent laws and regulations and the Articles of Association, the Supervisory Committee of the Company does not express any dissent as a result of its supervision over these matters. The Supervisory Committee has furnished its opinion on the state of affairs of the Company in 2011 as follows:

1. The Supervisory Committee has reviewed the self-assessment report on internal control of the Company and is of the view that the self-assessment on internal control of the Company is a true, objective and complete representation of the actual state of internal control of the Company. The Supervisory Committee expresses no disagreement to the self-assessment report on internal control of the Company. The opinion of the Supervisory Committee on the self-assessment of the Company’s internal control is set out in the section headed “(II) Opinion on internal control assessment” in “VIII. Internal Control” of this Annual Report.

2. The Company has established a proper internal control system with proper documentation such as the Articles of Association, the Rules of Procedure for General Meetings, the Rules of Procedure for Board of Directors' Meetings and the Rules of Procedure for Supervisory Committee Meetings and the Company's management systems have been in good order. The decision-making process of the Company has been in compliance with the relevant requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. The procedures, proposed resolutions and implementation of resolutions of the general meetings and meetings of the Board of Directors have also been in compliance with relevant provisions of the laws, regulations and the Articles of Association. Obligations of information disclosure have been duly performed.
3. The Directors and the management of the Company have diligently performed their duties in compliance with the laws and conscientiously implemented the resolutions of the general meetings and meetings of the Board of Directors. They have not violated any laws, regulations and the Articles of Association in the performance of their duties, nor have they acted against the Company and its shareholders' interests.
4. The preparation and review processes for the full text and summary of the 2011 annual report of the Company have been in compliance with provisions of the laws and regulations and the Articles of Association. The contents and format of the full text and summary of the 2011 annual report of the Company are in compliance with various requirements of regulatory authorities including the CSRC, Shenzhen Stock Exchange and the Hong Kong Stock Exchange. The Supervisory Committee and Supervisors of the Company warrant that the 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. The Company's disposal of its 51% shares in Congo Chine was in line with the requirements of its strategic development. The equity transfer was legal and effective and the transaction was fair and reasonable. The procedure for considering the matter was in compliance with the requirements of relevant laws and regulations without prejudice to the interest of the Company and its shareholders.
7. All connected party transactions between the Company and its connected parties have been conducted on an arm's length basis without compromising the interests of the Company and its shareholders.
8. The Company has established a "System of Registration of Owners of Insider Information" and has stringently complied with the same. No instances of owners of insider information trading in the Company's shares with the benefit of insider information during the reporting period have been identified.

9. CORPORATION GOVERNANCE REPORT

The Group 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 2011.

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 Listing Rules. After making specific enquiry with the Directors and Supervisors, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with provisions of the Model Code during 2011.

10. FINANCIAL REPORTS

10.1 The Audit Committee of the Company has reviewed, in association with the management, the accounting principles and standards adopted by the Group, and has investigated issues relating to auditing, internal control and financial reporting, including the review of the consolidated and company balance sheets at 31 December 2011 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 2011 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 2011, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2011 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 (2012) SHENZI NO. 60438556 H02).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company statements of financial position as at 31 December 2011, 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 2011 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 2010 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 2010 Annual Report are set out in the following

During 2011, the Group established the following new subsidiaries: tier-one subsidiaries including Shenzhen Zhongxing Supply Chain Company Limited (深圳市中興供應鏈有限公司), Shenzhen Baiwei Technology Company Limited (深圳市百維技術有限公司) and ZTE Group Finance Co., Ltd; tier-two subsidiaries including Hengyang Zhongxing ICT Company Limited (衡陽中興網信科技有限公司), Netex Cayman Holdings Co. Ltd (Cayman Islands), Xi'an Zhongxing Jingcheng Technology Company Limited (西安中興精誠科技有限公司), Shanghai Heertai Hotel Investment Management Company Limited (上海市和而泰酒店投資管理有限公司), Nanjing Zhongxing Hetai Hotel Management Company Limited (南京中興和泰酒店管理有限公司), Shenzhen Zhongxing Wulian Technology Company Limited (深圳市中興物聯科技有限公司), Xiamen ZTEsoft Software Company Limited (廈門中興軟創軟件有限公司), ZTE Albania Sh.p.k., ZTE International S.A. and Xinxun International (Hong Kong) Limited (鑫訊國際(香港)有限公司), Xi'an Jingcheng Communications (Hong Kong) Limited (西安精誠通訊(香港)有限公司) and Nanjing Zhongxing Mobile Communications Company Limited (南京中興移動通信有限公司); tier-three subsidiaries including ZTE CORPORATION PARAGUAY S.A., Apexvision Limited and ZTE Switzerland AG.

The Company entered into the "Sale and Purchase Agreement" with Atlas Services Belgium, a wholly-owned subsidiary of France Telecom to sell its 51% equity interests in Congo Chine to Atlas Services Belgium. The transaction and disposal of the equity interests was completed on 21 October 2011. With effect from 21 October 2011, Congo Chine was deconsolidated from the Group.

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

Applicable N/A

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
28 March 2012

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyong; five non-executive directors, Hou Weigui, 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

CONSOLIDATED BALANCE SHEET (AUDITED)

Currency: RMB'000

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

CONSOLIDATED BALANCE SHEET (AUDITED) (CONT'D)

Currency: RMB'000

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

CONSOLIDATED INCOME STATEMENT (AUDITED)

Currency: RMB'000

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)

Currency: RMB'000

	2011									
	Equity attributable to equity holders of the parent									
	Share capital	Capital reserve	Restricted Shares		Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency		Minority interests
subject to lock-up				translation differences				Sub-total		
I. Current year's opening balance	2,866,732	9,070,975	(276,266)	1,537,512	9,222,387	841,297	(168,765)	23,093,872	1,868,126	24,961,998
II. Changes during the year										
(1) Net profit	—	—	—	—	2,060,166	—	—	2,060,166	182,927	2,243,093
(2) Other comprehensive income	—	(4,120)	—	—	—	—	(358,931)	(363,051)	12,864	(350,187)
Total comprehensive income	—	(4,120)	—	—	2,060,166	—	(358,931)	1,697,115	195,791	1,892,906
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	4,477	235,729	—	—	—	—	240,206	8,711	248,917
2. Equity settled share expenses charged to equity	—	41,821	—	—	—	—	—	41,821	—	41,821
3. Disposal of subsidiaries	—	—	—	—	—	—	—	—	95,703	95,703
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	50,379	(50,379)	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)	(111,273)	(952,570)
3. Proposed final dividends	—	—	—	—	(686,190)	686,190	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	573,346	(573,346)	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
III. Current year's closing balance	<u>3,440,078</u>	<u>8,539,807</u>	<u>(40,537)</u>	<u>1,587,891</u>	<u>10,545,984</u>	<u>686,190</u>	<u>(527,696)</u>	<u>24,231,717</u>	<u>2,057,058</u>	<u>26,288,775</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED) (CONT'D)

Currency: RMB'000

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

CONSOLIDATED CASH FLOW STATEMENT (AUDITED)

Currency: RMB'000

	2011	2010
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	80,967,660	67,783,927
Refunds of taxes	6,315,454	4,742,338
Cash received relating to other operating activities	1,507,637	655,081
Sub-total of cash inflows	<u>88,790,751</u>	<u>73,181,346</u>
Cash paid for goods and services	59,892,837	47,382,746
Cash paid to and on behalf of employees	13,418,931	9,678,857
Cash paid for all types of taxes	5,611,652	4,437,726
Cash paid relating to other operating activities	11,679,548	10,740,107
Sub-total of cash outflows	<u>90,602,968</u>	<u>72,239,436</u>
Net cash flows from operating activities	<u>(1,812,217)</u>	<u>941,910</u>
II. Cash flows from investing activities		
Cash received from sale of investments	1,996,248	—
Cash received from return on investments	204,503	17,001
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	90,615	29,480
Sub-total of cash inflows	<u>2,291,366</u>	<u>46,481</u>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	4,065,036	3,067,164
Cash paid for acquisition of investments	1,645,035	91,902
Sub-total of cash outflows	<u>5,710,071</u>	<u>3,159,066</u>
Net cash flows from investing activities	<u>(3,418,705)</u>	<u>(3,112,585)</u>

CONSOLIDATED CASH FLOW STATEMENT (AUDITED) (CONT'D)

Currency: RMB'000

	2011	2010
III. Cash flows from financing activities		
Cash received from capital injection	7,137	3,913,019
Including: Capital injection into subsidiaries by minority shareholders	7,137	716,255
Cash received from borrowings	<u>34,945,347</u>	<u>11,946,153</u>
Sub-total of cash inflows	<u>34,952,484</u>	<u>15,859,172</u>
Cash repayments of borrowings	21,517,594	11,568,474
Cash payments for distribution of dividends, profits and for interest expenses	2,034,481	1,252,949
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	<u>62,274</u>	<u>69,797</u>
Sub-total of cash outflows	<u>23,552,075</u>	<u>12,821,423</u>
Net cash flows from financing activities	<u>11,400,409</u>	<u>3,037,749</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(412,497)</u>	<u>(37,797)</u>
V. Net increase in cash and cash equivalents	5,756,990	829,277
Add: cash and cash equivalents at beginning of year	<u>14,905,099</u>	<u>14,075,822</u>
VI. Net balance of cash and cash equivalents	<u><u>20,662,089</u></u>	<u><u>14,905,099</u></u>

BALANCE SHEET (AUDITED)*Currency: RMB'000*

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

BALANCE SHEET (AUDITED) (CONT'D)*Currency: RMB'000*

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

INCOME STATEMENT (AUDITED)

Currency: RMB'000

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

STATEMENT OF CHANGES IN EQUITY (AUDITED)
Currency: RMB'000

	2011							
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current year's opening balance	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146
II. Changes during the year								
(1) Net profit	—	—	—	—	503,793	—	—	503,793
(2) Other comprehensive income	—	—	—	—	—	—	(936)	(936)
Total comprehensive income	—	—	—	—	503,793	—	(936)	502,857
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	235,729	—	—	—	—	235,729
2. Equity settled share expenses charged to equity	—	41,821	—	—	—	—	—	41,821
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	50,379	(50,379)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)
3. Proposed final dividends	—	—	—	—	(686,190)	686,190	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	573,346	(573,346)	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—
III. Current year's closing balance	<u>3,440,078</u>	<u>8,534,677</u>	<u>(40,537)</u>	<u>925,674</u>	<u>1,309,523</u>	<u>686,190</u>	<u>(16,349)</u>	<u>14,839,256</u>

STATEMENT OF CHANGES IN EQUITY (AUDITED) (CONT'D)
Currency: RMB'000

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

CASH FLOW STATEMENT (AUDITED)*Currency: RMB'000*

	2011	2010
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	72,514,920	59,832,828
Refunds of taxes	4,554,588	3,465,668
Cash received relating to other operating activities	4,116,964	469,774
Sub-total of cash inflows	81,186,472	63,768,270
Cash paid for goods and services	66,899,632	53,303,110
Cash paid to and on behalf of employees	5,027,952	3,553,560
Cash paid for all types of taxes	676,342	532,350
Cash paid relating to other operating activities	6,526,821	5,636,662
Sub-total of cash outflows	79,130,747	63,025,682
Net cash flows from operating activities	2,055,725	742,588
II. Cash flows from investing activities		
Cash received from sale of investments	1,329,699	—
Cash received from return on investments	124,088	57,538
Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net	86,207	35,471
Sub-total of cash inflows	1,539,994	93,009
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	2,064,261	1,987,507
Cash paid for acquisition of investments	1,763,675	806,600
Sub-total of cash outflows	3,827,936	2,794,107
Net cash flows from investing activities	(2,287,942)	(2,701,098)

CASH FLOW STATEMENT (AUDITED) (CONT'D)*Currency: RMB'000*

	2011	2010
III. Cash flows from financing activities		
Cash received from capital injection	—	3,196,764
Cash received from borrowings	14,933,865	8,823,585
Sub-total of cash inflows	14,933,865	12,020,349
Cash repayment of borrowings	8,987,158	9,177,613
Cash payments for distribution of dividends, profits and for interest expenses	1,681,469	1,128,436
Sub-total of cash outflows	10,668,627	10,306,049
Net cash flows from financing activities	4,265,238	1,714,300
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(261,444)	(58,861)
V. Net increase in cash and cash equivalents	3,771,577	(303,071)
Add: cash and cash equivalents at beginning of year	9,505,157	9,808,228
VI. Net balance of cash and cash equivalents	13,276,734	9,505,157

**APPENDIX II FINANCIAL STATEMENTS PREPARED UNDER HKFRSS AND NOTES
HERETO**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
REVENUE	86,254,456	69,906,686
Cost of sales	(62,086,367)	(48,241,770)
Gross profit	24,168,089	21,664,916
Other income and gains	3,664,374	2,639,807
Research and development costs	(8,492,623)	(7,091,971)
Selling and distribution costs	(11,112,176)	(8,890,214)
Administrative expenses	(2,605,579)	(2,524,001)
Other expenses	(1,684,091)	(753,907)
Finance costs	(1,374,163)	(728,552)
Share of profits and losses of:		
Jointly-controlled entities	440	—
Associates	70,865	44,123
PROFIT BEFORE TAX	2,635,136	4,360,201
Income tax expense	(392,043)	(883,719)
PROFIT FOR THE YEAR	<u>2,243,093</u>	<u>3,476,482</u>
Attributable to:		
Owners of the parent	2,060,166	3,250,247
Non-controlling interests	182,927	226,235
	<u>2,243,093</u>	<u>3,476,482</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
OTHER COMPREHENSIVE INCOME		
Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the year	(4,120)	—
Exchange differences on translation of foreign operations	(346,067)	41,399
	<u>(350,187)</u>	<u>41,399</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(350,187)</u>	<u>41,399</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,892,906</u>	<u>3,517,881</u>
Attributable to:		
Owners of the parent	1,697,115	3,301,525
Non-controlling interests	195,791	216,356
	<u>1,892,906</u>	<u>3,517,881</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	<u>RMB0.61</u>	<u>RMB0.98</u>
Diluted	<u>RMB0.61</u>	<u>RMB0.96</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	8,646,027	7,720,276
Prepaid land lease payments	862,030	758,805
Intangible assets	2,239,648	1,582,564
Long term prepayments and deposits	691,240	—
Investment in jointly-controlled entities	46,195	2,255
Investments in associates	467,896	915,734
Available-for-sale investments	819,972	342,706
Long-term trade receivables	864,274	567,444
Factored long-term trade receivables	4,156,083	4,972,718
Deferred tax assets	1,128,836	655,245
Pledged deposits	949,666	1,090,086
	<u>20,871,867</u>	<u>18,607,833</u>
Total non-current assets		
CURRENT ASSETS		
Prepaid land lease payments	18,878	16,425
Inventories	14,988,379	12,103,670
Amount due from customers for contract works	14,588,455	14,208,039
Trade and bills receivables	27,096,954	18,853,802
Factored trade receivables	3,623,096	3,016,569
Prepayments, deposits and other receivables	5,028,840	3,196,314
Equity investment at fair value through profit or loss	87,180	—
Derivative financial instruments	8,438	123,365
Pledged deposits	724,878	407,009
Time deposits with original maturity of over three months	85,000	71,099
Cash and cash equivalents	20,662,089	14,905,099
	<u>86,912,187</u>	<u>66,901,391</u>
Total current assets		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES		
Trade and bills payables	32,692,252	25,497,683
Amount due to customers for contract works	3,068,804	2,772,669
Other payables and accruals	13,407,890	9,320,689
Derivative financial instruments	5,305	40,139
Interest-bearing bank borrowings	11,876,448	7,901,230
Bank advances on factored trade receivables	3,789,731	3,016,569
Tax payable	880,275	885,728
Dividends payable	170,046	136,302
	<u>65,890,751</u>	<u>49,571,009</u>
Total current liabilities		
	<u>65,890,751</u>	<u>49,571,009</u>
NET CURRENT ASSETS	<u>21,021,436</u>	<u>17,330,382</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>41,893,303</u>	<u>35,938,215</u>
NON-CURRENT LIABILITIES		
Derivative financial instruments	1,248	—
Bonds cum warrants	3,884,198	3,755,790
Interest-bearing bank borrowings	6,940,702	1,719,310
Bank advances on factored long-term trade receivables	4,156,083	4,972,718
Financial guarantee contract	3,689	3,689
Deferred tax liabilities	—	89,167
Provision for retirement benefits	48,716	43,332
Other long-term payables	569,892	392,211
	<u>15,604,528</u>	<u>10,976,217</u>
Total non-current liabilities		
	<u>15,604,528</u>	<u>10,976,217</u>
Net assets	<u>26,288,775</u>	<u>24,961,998</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	3,440,078	2,866,732
Shares subject to lock-up under the Share Incentive Scheme	(40,537)	(276,266)
Reserves	20,145,986	19,662,109
Proposed final dividend	<u>686,190</u>	<u>841,297</u>
	24,231,717	23,093,872
Non-controlling interests	<u>2,057,058</u>	<u>1,868,126</u>
Total equity	<u><u>26,288,775</u></u>	<u><u>24,961,998</u></u>

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 and certain equity investments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

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

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets

in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- *HKAS 1 Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.
- *HKAS 27 Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters¹</i>
HKFRS 7 Amendments	<i>Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets¹</i> <i>Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities⁴</i>
HKFRS 9	<i>Financial Instruments⁶</i>
HKFRS 10	<i>Consolidated Financial Statements⁴</i>
HKFRS 11	<i>Joint Arrangements⁴</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities⁴</i>
HKFRS 13	<i>Fair Value Measurement⁴</i>
HKAS 1 Amendments	<i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income³</i>
HKAS 12 Amendments	<i>Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets²</i>
HKAS 19 (2011)	<i>Employee Benefits⁴</i>
HKAS 27 (2011)	<i>Separate Financial Statements⁴</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures⁴</i>
HKAS 32 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities⁵</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine⁴</i>

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

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

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.
- (b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.
- (c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in a jointly-controlled entity and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds cum warrants, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2011	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Telecommunications system contracts	46,522,048	—	9,129,909	55,651,957
Sale of goods and services	—	26,933,508	3,668,991	30,602,499
	<u>46,522,048</u>	<u>26,933,508</u>	<u>12,798,900</u>	<u>86,254,456</u>
Segment results	11,519,506	212,726	1,948,736	13,680,968
Bank and other interest income				283,618
Dividend income and unallocated gains				3,380,756
Corporate and other unallocated expenses				(13,407,348)
Finance costs				(1,374,163)
Share of profits and losses of associates and jointly-controlled entities				71,305
Profit before tax				<u>2,635,136</u>
Segment assets	40,918,534	13,141,415	11,257,292	65,317,241
Investment in associates				467,896
Investment in jointly-controlled entities				46,195
Corporate and other unallocated assets				41,952,722
Total assets				<u>107,784,054</u>
Segment liabilities	9,964,112	767,660	2,741,274	13,473,046
Corporate and other unallocated liabilities				68,022,233
Total liabilities				<u>81,495,279</u>
Other segment information:				
Impairment losses recognised in profit or loss	510,603	295,609	140,475	946,687
Depreciation and amortisation	768,137	444,706	211,325	1,424,168
Capital expenditure*	<u>2,072,898</u>	<u>1,200,085</u>	<u>570,284</u>	<u>3,843,267</u>

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

Year ended 31 December 2010 (Restated)	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Telecommunications system contracts	41,976,345	—	6,864,654	48,840,999
Sale of goods and services	—	17,646,398	3,419,289	21,065,687
	<u>41,976,345</u>	<u>17,646,398</u>	<u>10,283,943</u>	<u>69,906,686</u>
Segment results	10,390,586	941,051	1,693,166	13,024,803
Bank and other interest income				101,020
Dividend income and unallocated gains				2,538,787
Corporate and other unallocated expenses				(10,619,980)
Finance costs				(728,552)
Share of profits and losses of associates				44,123
Profit before tax				<u>4,360,201</u>
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				<u>85,509,224</u>
Segment liabilities	10,274,691	700,294	2,531,665	13,506,650
Corporate and other unallocated liabilities				47,040,576
Total liabilities				<u>60,547,226</u>
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	<u>2,277,154</u>	<u>972,217</u>	<u>561,087</u>	<u>3,810,458</u>

Geographical information

(a) Revenue from external customers

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
The PRC (place of domicile)	39,496,611	32,197,530
Asia (excluding the PRC)	15,633,325	12,687,912
Africa	10,677,523	10,639,010
Europe, Americas and Oceania	20,446,997	14,382,234
	<u>86,254,456</u>	<u>69,906,686</u>

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

(b) Non-current assets

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (place of domicile)	9,519,671	7,576,126
Asia (excluding the PRC)	1,000,455	818,727
Africa	391,603	1,596,516
Europe, Americas and Oceania	835,976	70,276
	<u>11,747,705</u>	<u>10,061,645</u>

The non-current asset information from continuing operations above is based on the location of assets and excludes financial instruments and deferred tax assets.

5. REVENUE

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
Revenue		
Telecommunications system contracts	55,651,957	48,840,999
Sale of goods	26,933,508	17,646,398
Sale of services	3,668,991	3,419,289
	<u>86,254,456</u>	<u>69,906,686</u>

6. PROFIT BEFORE TAX

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

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
Cost of goods and services	52,185,748	44,489,594
Depreciation	1,026,399	867,580
Amortisation of land lease payments	16,983	11,811
Amortisation of intangible assets	380,787	191,693
Research and development cost:		
Total research and development cost	9,210,859	7,928,625
Less: Deferred development cost	(718,236)	(836,654)
	8,492,623	7,091,971
Fair value (gains)/losses, net*:		
Derivative instruments — transactions not qualifying as hedges	77,860	(83,598)
Equity investments held for trading	10,815	—
Impairment of trade receivables*	576,537	342,972
Provision for warranties	516,152	291,939
Write-down/(reversal of write-down) of inventories to net realisable value**	370,150	(27,709)
Minimum lease payments under operating leases on land and buildings	509,877	476,925
Contingent rental income in respect of operating leases	(89,219)	(25,810)
Auditors' remuneration	7,292	6,991
Staff costs (including directors' and supervisors' remuneration in note 8):		
Wages, salaries, bonuses, allowances and welfare	11,465,702	9,983,311
Equity-settled share expense	41,821	158,957
Retirement benefit scheme contributions:		
Defined benefit pension scheme	6,352	6,303
Defined contribution pension scheme	730,096	571,304
	12,243,971	10,719,875

6. PROFIT BEFORE TAX (CONT'D)

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i> (Restated)
Foreign exchange loss*	836,993	179,428
Loss on disposal of items of property, plant and equipment*	30,629	24,094
Gain on disposal of Nationz Technologies Inc	(866,503)	(440,318)
Loss on disposal of a subsidiary*	18,801	—
Gain on disposal of available for sale investments	<u>(5,931)</u>	<u>—</u>

* The fair value losses, impairment of trade receivables, foreign exchange loss, loss on disposal of items of property, plant and equipment and loss on disposal of a subsidiary are included in “Other expenses” on the face of the consolidated statement of comprehensive income.

** Write-down/(reversal of write-down) of inventories to net realisable value are included in “Cost of sales” on the face of the consolidated statement of comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	691,954	233,209
Interest on bonds cum warrants	<u>160,408</u>	<u>155,109</u>
Total interest expense on financial liabilities not at fair value through profit or loss	852,362	388,318
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	<u>521,801</u>	<u>340,234</u>
	<u><u>1,374,163</u></u>	<u><u>728,552</u></u>

8. INCOME TAX

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Group:		
Current — Hong Kong	2,974	2,347
Current — Mainland China	799,675	778,452
Current — Overseas	152,152	29,004
Deferred	<u>(562,758)</u>	<u>73,916</u>
Total tax charge for the year	<u><u>392,043</u></u>	<u><u>883,719</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

As a registered national-grade hi-tech enterprise in Shenzhen, the Company enjoyed an enterprise income tax rate of 15% for the years from 2011 to 2013.

9. DIVIDENDS

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final — RMB0.2 (2010: RMB0.3) per ordinary share	<u>686,190</u>	<u>841,297</u>

The said profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 3,390,411,470 (2010: 3,323,155,724) in issue during the year, as adjusted to reflect the capitalisation issue during the year.

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

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

	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	<u>2,060,166</u>	<u>3,250,247</u>

	Number of shares	
	2011 '000	2010 '000 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation [#]	3,390,411	3,323,156
Shares subject to lock-up under the Share Incentive Scheme ^{##}	6,874	74,237
Adjusted weighted average number of ordinary shares in issue	<u>3,397,285</u>	<u>3,397,393</u>

[#] During the year, 9,125,893 shares subjected to lock-up under the Share Incentive Scheme are excluded from the calculation of basic earnings per share.

^{##} 2,251,699 Subject Shares to be lapsed are excluded from 9,125,893 unlocking Subject Shares when calculating diluted earnings per share.

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

	Group		Company	
	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade and bills receivables	30,643,306	21,604,193	38,977,582	27,690,234
Impairment	(2,682,078)	(2,182,947)	(2,079,511)	(1,709,965)
	27,961,228	19,421,246	36,898,071	25,980,269
Current portion	(27,096,954)	(18,853,802)	(36,128,157)	(25,482,748)
Long-term portion	<u>864,274</u>	<u>567,444</u>	<u>769,914</u>	<u>497,521</u>

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

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

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	24,390,814	15,933,535	25,667,698	16,780,050
7 to 12 months	2,296,520	2,563,041	4,292,698	3,732,292
1 to 2 years	1,174,085	877,934	3,188,689	2,328,878
2 to 3 years	99,809	46,736	1,281,835	1,809,245
Over 3 years	—	—	2,467,151	1,329,804
	27,961,228	19,421,246	36,898,071	25,980,269
Current portion of trade and bills receivables	(27,096,954)	(18,853,802)	(36,128,157)	(25,482,748)
Long-term portion	864,274	567,444	769,914	497,521

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

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	2,182,947	1,854,947	1,709,965	1,459,189
Impairment losses recognised	618,479	375,612	388,701	267,507
Amount write off as uncollectible	(77,406)	(14,972)	(13,400)	(489)
Impairment losses reversed	(41,942)	(32,640)	(5,755)	(16,242)
At 31 December	2,682,078	2,182,947	2,079,511	1,709,965

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB673,371,000 (2010: RMB616,067,000) with a carrying amount before provision of RMB673,371,000 (2010: RMB616,067,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	5,746,119	3,839,776	9,241,251	4,573,317
Less than one year past due	19,420,846	13,406,522	19,407,690	15,538,415
	25,166,965	17,246,298	28,648,941	20,111,732

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

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

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

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Subsidiaries	—	—	18,414,733	12,015,794
The controlling shareholder	77	—	—	—
A jointly-controlled entity	88,966	—	88,966	—
Associates	1,652	3,977	—	3,571
Related companies	25,957	7,685	16,773	—
	<u>116,652</u>	<u>11,662</u>	<u>18,520,472</u>	<u>12,019,365</u>

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

The Group and the Company have pledged trade receivables of RMB1,105,174,000 and Nil (2010: RMB2,310,844,000 and RMB2,082,346,000) to secure the bank borrowings.

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	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	32,263,588	25,302,896	43,665,761	34,916,850
7 to 12 months	299,452	34,558	217,409	5,260
1 to 2 years	87,206	104,584	3,992	4,695
2 to 3 years	13,278	22,766	1,101	224
Over 3 years	28,728	32,879	13,653	24,830
	<u>32,692,252</u>	<u>25,497,683</u>	<u>43,901,916</u>	<u>34,951,859</u>

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

	Group		Company	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Subsidiaries	—	—	28,663,445	23,143,813
The controlling shareholder	70,404	152,772	—	—
Related companies	88,159	122,967	79	79
Associates	154,025	69,613	—	—
	<u>312,588</u>	<u>345,352</u>	<u>28,663,524</u>	<u>23,143,892</u>

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

- (1) As at 19 March 2012, Shenzhen Jufei Optoelectronics Co., Ltd. (the “Jufei”), an associate of the Group, was listed in GEM Board of Shenzhen Stock Exchange. The listing price of Jufei was RMB25 per share, and 20,460,000 shares were issued upon the initial public offering. 12.87 million shares of Jufei, representing 21.62% of the total share capital of Jufei before the offering, were held by Shenzhen Changfei Investment Company Limited, a subsidiary of the Company.
- (2) Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB2 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,440,078,020 shares as at 31 December 2011 less the number of Subject Shares remaining in lock-up under the Share Incentive Scheme as at the A share record date for the purpose of the 2011 profit distribution (the “Record Date”). As at 28 March 2012, 9,125,893 registered Subject Shares under the Share Incentive Scheme remained in lock-up. In accordance with relevant provisions of the Share Incentive Scheme, restricted shares remaining in lock-up shall not be entitled to the cash dividend. The number of shares entitled to the cash dividend under the 2011 profit distribution proposal will be 3,430,952,127 shares, on which basis the 2011 profit distribution plan will be implemented. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.