



ZTE中兴 中兴通讯股份有限公司
ZTE CORPORATION

Annual Report 2004

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Important

The Board of Directors and the Directors of the Company confirm that this annual report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of this annual report.

Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr Yu Yong, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial statements contained in this annual report.

This annual report has been considered and approved at the twelfth meeting of the third session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman of the Board of Directors, was unable to attend the meeting due to work reasons and issued a written authorization to Mr. Wang Zongyin, Vice Chairman, as his proxy to preside at the meeting and to vote on his behalf. Mr. Tan Shanyi, Director, was unable to attend the meeting due to work reasons and issued a written authorization to Mr. He Shiyou, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons and issued a written authorization to Mr. Li Juping, Director, to vote on his behalf.

The respective financial statements of the Group for the year ended 31 December 2004 were prepared in accordance with generally accepted accounting principles (PRC GAAP) in the PRC and with Hong Kong accounting standards respectively, and had been audited by Shenzhen Dahua Tiancheng Certified Public Accountants and Ernst & Young, and an auditors' report without any qualified opinion has been issued by each of them.

This report has been prepared in Chinese and English respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial statements prepared in accordance with Hong Kong accounting standards, which the English version shall prevail.

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary".

"Board of Directors"	The board of directors of the Company.
"CASC"	China Aerospace Science and Technology Corporation and its subsidiaries.
"CASIC"	CASIC (Group) Company, Limited and its subsidiaries.
"Company" or "ZTE"	ZTE Corporation, a joint stock limited company incorporated in China on 11 November 1997 under the Company Law of the People's Republic of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange respectively.
"China Mobile"	China Mobile Communications Corporation and its subsidiaries.
"China Netcom"	China Network Communications Group Corporation and its subsidiaries.
"China Telecom"	China Telecommunications Corporation and its subsidiaries.
"China Unicom"	China United Telecommunications Corporation and its subsidiaries.
"Group"	One or more of ZTE and its subsidiaries.
"Hong Kong accounting standards"	Generally accepted accounting principles in Hong Kong.
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Hong Kong Stock Exchange Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time).
"ITU"	International Telecommunications Union, a specialized agency for telecommunications within the United Nations, the primary aim of which is to coordinate the operation of telecommunications network and services and advance the development of communications technology.
"PRC GAAP"	Generally accepted accounting principles in China.
"Shenzhen Stock Exchange"	the Shenzhen Stock Exchange of China.
"Supervisors"	The members of the supervisory committee of the Company.
"Zhongxingxin"	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited.
"ZTE Kangxun"	ZTE Kangxun Telecom Company Limited.
"ZTE Software"	Shenzhen ZTE Software Company, Limited.
"Zhongxing WXT"	Shenzhen Zhongxing WXT Equipment Company, Ltd..

GLOSSARY

This glossary contains certain definitions of technical terms used in this annual report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage of such terms.

“3G”	The third generation of wireless networks. These networks should be able to support peak data rates of 144 Kbps at mobile user speeds, 384 Kbps at pedestrian user speeds and 2 Mbps in fixed locations (peak speeds), although some initial deployments were configured to support just 64 Kbps. ITU coordinates 3G standards through its IMT-2000 project and incorporates the key standards bodies, 3GPP and 3GPP2.
“ADSL”	Asymmetrical digital subscriber lines, a method of transmitting data over traditional copper telephone lines. Data can be downloaded at speeds of up to 1.547 Mbps and uploaded at speeds of 128 Kbps.
“CDMA”	Code division multiple access, one of the standards for 2G mobile communications. It is a spread-spectrum technology standard that assigns a pseudo-noise (PN) code to all speech and data bits, sends a scrambled transmission of the encoded speech over the air and reassembles the speech in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations.
“DWDM”	Dense wavelength division multiplexing, a technology that enables a single optical fiber to carry multiple data channels (or wavelengths). Commercial DWDM systems now exceed 100 channels.
“DSL”	Digital subscriber lines, the collective name given to a number of techniques used for transmitting digital data over the local loop or subscriber line. These are also known as xDSL. Examples are ADSL, HDSL, VDSL, MDSL and RDSL.
“GSM”	Global system for mobile communications, a digital cellular phone system standard that originated in Europe. It is deployed in more than 170 countries worldwide and uses a TDMA radio propagation scheme.
“PHS”	Personal handyphone system, a digital mobile telephone system using technology developed according to Japanese standards and operating on the 1900Mhz frequency.
“softswitch”	Abbreviation for software switch, softswitch is an application protocol interface which is used to link a traditional PSTN to IP networks and manage traffic containing a mixture of voice, fax, data and video.

CORPORATE PROFILE

The Company is listed on the Shenzhen Stock Exchange and the main board of the Hong Kong Stock Exchange. The Group is one of the leading providers of high technology telecommunications equipment in China.

In November 1997, the Company conducted an initial public offering of A shares, which were listed on the Shenzhen Stock Exchange. We are currently the largest listed telecommunications equipment manufacturing company in China's A share market in terms of market capitalisation, revenue from principal operations and net profits. In December 2004, the Company conducted a public offering of H shares and listed the H shares on the main board of the Hong Kong Stock Exchange, making the Company the first PRC A share listed company to be listed in Hong Kong.

The Group is engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications systems and equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets and telecommunications software systems and services.

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the global telecommunications market. The Group has achieved a leading market position for its products in China and the Group has established longstanding cooperative relationships with China's leading telecommunications service providers, including China Telecom, China Netcom, China Mobile and China Unicom. With respect to the global telecommunications market, the Group has sold its products to over 150 customers in more than 60 countries and regions around the world, including telecommunications service providers in India, Indonesia, Pakistan, Thailand, Russia, Romania, Nigeria, Egypt and Hong Kong.

CORPORATE INFORMATION

1.	Legal name (in Chinese) Legal name (in English)	中興通訊股份有限公司 ZTE CORPORATION
2.	Legal representative	Hou Weigui (侯為貴)
3.	Secretary to the Board of Directors	Feng Jianxiong (馮健雄)
	Joint company secretaries	Feng Jianxiong (馮健雄) Suen Pui Yee, Samantha (孫佩儀)
	Securities affairs representatives	Li Qian (李黔) Li Lihong (李柳紅)
	Registered office	ZTE Plaza Keji Road South Hi-Tech Industrial Park Nanshan District Shenzhen People's Republic of China
	Postal code	518057
	Telephone	(86 755) 26770282
	Facsimile	(86 755) 26770286
	E-mail	fengjianxiong@zte.com.cn
	Website	http://www.zte.com.cn
	Place of business in Hong Kong	8/F Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
4.	Authorized representatives:	Yin Yimin (殷一民) Block 710 Liantang Pengji Industrial Zone Luohu District Shenzhen, Guangdong Province People's Republic of China

CORPORATE INFORMATION

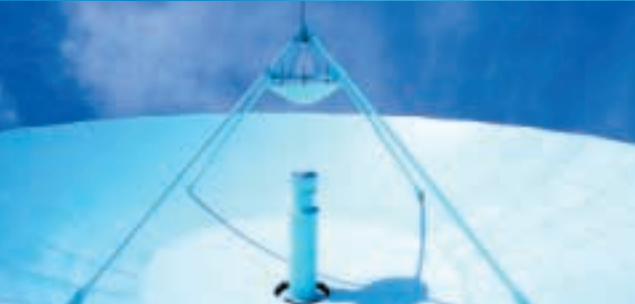
	Feng Jianxiong Company address: ZTE Plaza Keji Road South Hi-Tech Industrial Park Nanshan District Shenzhen, Guangdong Province People's Republic of China
5. Newspapers designated for information disclosure	<i>Domestic</i> China Securities Journal Securities Times Shanghai Securities News <i>International</i> South China Morning Post (English) Hong Kong Economic Times (Chinese)
6. Listing information	<i>A shares</i> Shenzhen Stock Exchange Stock code: 000063 Stock name: ZTE Corporation <i>H shares</i> Hong Kong Stock Exchange Stock code: 763 Stock name: ZTE
7. Authorized websites on which this annual report is made available	http://www.cninfo.com.cn http://www.hkex.com.hk
Place where this annual report is available for inspection	ZTE Plaza Keji Road South Hi-Tech Industrial Park Nanshan District Shenzhen, Guangdong Province People's Republic of China
8. Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1712-16, 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong

CORPORATE INFORMATION

9. Legal advisers	<p><i>As to Chinese law</i> Jun He Law Offices 20th Floor China Resources Building Beijing People's Republic of China</p> <p><i>As to Hong Kong and US Law</i> Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square Central, Hong Kong</p>
10. Auditors	<p><i>Domestic</i> Shenzhen Dahua Tiancheng Certified Public Accountants Units 1102-1103, 11th Floor Block B, United Plaza No.5022 Binhe Road Futian District, Shenzhen People's Republic of China</p> <p><i>International</i> Ernst & Young 15th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong</p>
11. Other related information	
Initial registration date	11 November 1997
Initial registered address	6th Floor, No.710 Building Liantang Pengji Industrial Zone Luohu District Shenzhen, Guangdong Province People's Republic of China
Date of change of registration	29 September 2000
New registered address	ZTE Plaza Keji Road South Hi-Tech Industrial Park Nanshan District Shenzhen, Guangdong Province People's Republic of China
Corporate legal person business licence registration no.	4403011015176
Taxation registration certificate numbers	State tax: 44030127939873X Local tax: 44030327939873X

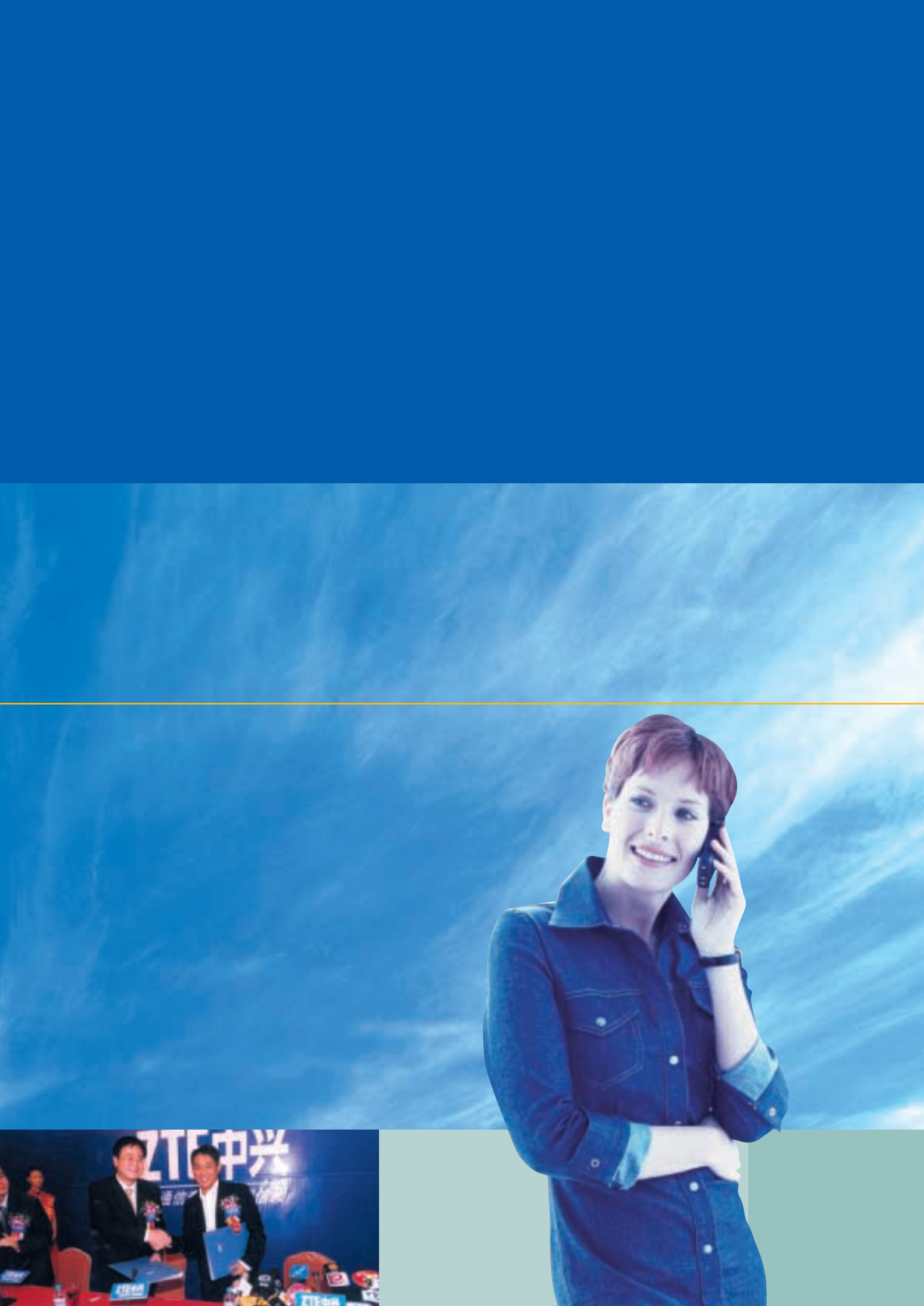
A LEADING TELECOMMUNICATIONS EQUIPMENT COMPANY

In 2004, the Group not only has consolidated and strengthened its leading position in China, but also succeeded in the international market. With a breakthrough in sales in the international market, the Group has achieved healthy and sustained growth in its operating results and financial position in 2004.



The Company is the first A share listed company to be listed on the main board of Hong Kong Stock Exchange. The successful listing provides the Group with access to international capital markets.





CHAIRMAN'S STATEMENT

Chairman
Hou Weigui



Dear Shareholders:

I am pleased to present to the shareholders of the Company the annual report of the Group for the fiscal year ended 31 December 2004. On behalf of the Board of Directors, I would like to express my sincere gratitude to each shareholder for his concern and support for ZTE.

Review of the performance of the Group for 2004

The phrase "healthy and sustained growth" can best be used to summarize the operations of the Group for the year of 2004. During the year, the Group experienced significant growth and improvement in various aspects of its operating results and financial position as compared to the previous year. We believe this result was attributable both to the overall favourable development of the telecommunications industry and the efforts made by us in order to achieve optimal operating results and financial position.

As one of the leading high technology telecommunications equipment providers in China, we were able to consolidate our leading position in the industry domestically in 2004. According to the Ministry of Information Industry, the total fixed assets investment in the telecommunications equipment industry in China grew moderately in 2004 as compared to 2003. Through our in-depth knowledge of the telecommunications industry and its telecommunications service providers, we seized upon the investment focus of the telecommunications service providers.

The Group's products have been successful in the international market. The global telecommunications industry posted a recovery in 2004 following the lackluster performance in the past few years. Against this background, the Group stepped up its efforts to develop the international market and made a breakthrough in international sales volumes in 2004 with significant growth as compared to 2003.



The Group's overall objective is to consolidate and strengthen its leading position in the telecommunications equipment market, actively develop the international market and endeavour to become the leading global cross-border telecommunications equipment supplier.



We were successfully listed on the main board of Hong Kong Stock Exchange in December 2004, becoming the first A share listed company to be listed on the main board of Hong Kong Stock Exchange. We believe that our Hong Kong listing provides a higher and better financial platform for ZTE to further implement its globalization strategy. We will also build a high quality enterprise that is more transparent and responsible to shareholders in accordance with the demands of the international capital markets.

As a high technology enterprise, research and development is the key to our development. We will continue to invest a considerable portion of our income into research and development each year and focus on accumulating and protecting intellectual property rights in the long run so as to ensure the sustainable development of the Group. We are deeply aware of the importance of improving our operating efficiency and product quality. In 2004, the Group implemented a corporate strategy of enhancing internal efficiencies, thereby improving management standards and overall operating efficiency. The Group also implemented stringent quality control measures and customers' satisfaction increased substantially.

Business Outlook

The globalization of competition is the major trend in the telecommunications equipment industry. We anticipate that the global telecommunications industry will maintain stable growth in 2005 while the domestic telecommunications industry in China will also remain stable. The application of new technologies and products will create both new business opportunities and more intense competition and challenges for the telecommunications equipment manufacturers, including ZTE.

In light of the opportunities and challenges, our main objectives in 2005 in order to maintain and enhance our core competitiveness and market share as well as to improve our results are stated below:

- To further expand our international presence. In 2005, the Group will adopt a localization strategy for its human resources, production and products to expand its development efforts in the rapidly-growing emerging market on the one hand; and to actively develop the market for cross-border telecommunications service providers on the other hand. We will continue to work towards rapid growth in the international market.

CHAIRMAN'S STATEMENT

- To consolidate and enhance the position as a leading supplier in China. The domestic market is the Group's core market, which provides us with a framework to vigorously develop the international market. The Group will continue to provide differentiated products and end-to-end integrated solutions to assist its customers in developing new business and revenue sources, expand the range of products and increase its market share. We will also foster consumption levels and promote our products and services to end-users through the establishment of strategic cooperation relationships with our customers.
- To enhance research and development capability. In 2005, the Group will continuously improve all aspects of its research and development process and capabilities, and enhance resource sharing and integration ability of each business division. At the same time, the Group will strengthen its research and development efforts on strategic new products so as to promptly seize upon or direct market opportunities.
- To continue with the further development of handset business. In 2005, the Group will further develop its handset business and continue to enhance its research and development capability for handsets by keeping abreast with technological advancements. This will enable the provision of different products and services to handset users and enable the Group to produce better quality and price-competitive products. The Group will

strengthen cooperation with major telecommunications service providers and promote the sale of handset products by providing standardised handset services. The Group will also perfect its handset distribution network and promote, through advertisements, the ZTE brand to handset users so as to increase sales of the Group's handset products.

- To continue enhancing the Group's product quality and improve operating efficiency. We will actively execute and perfect our quality control system, and continue our focus on quality improvement, to enhance overall customer satisfaction. We will further enhance our operating efficiency by reinforcing execution efforts and strengthening digital management as well as constructing and operating our knowledge bank, so that the management standards of the Group will match advanced international standards.

We will make further efforts to implement the Group's development strategy, create greater value of the Company, establish a more complete corporate governance structure and enhance transparency so as to yield good returns for shareholders and the society.

Hou Weigui
Chairman
Shenzhen, China
11 April 2005

FINANCIAL HIGHLIGHTS

1. MAJOR FINANCIAL DATA OF THE GROUP FOR 2004 PREPARED IN ACCORDANCE WITH PRC GAAP

Unit: in millions RMB

	2004
Total profit	1,418.8
Net profit	1,008.9
Net profit after extraordinary gains or losses	992.4
Profit from main operations	8,258.1
Profit from other operations	41.3
Operating profit	1,186.4
Investment income	(3.7)
Subsidy income	378.7
Net non-operating income and expenses	(142.6)
Net cash flow arising from business activities	1,644.6
Net increase in cash and cash equivalents	3,813.2

The extraordinary gain or loss items and amounts are listed below:

Unit: in millions RMB

Item	Amount
Subsidy income	40.2
Gain from short-term investment	12.1
Non-operating income	18.0
Less: non-operating expenses	53.0
Less: investment loss from disposal of equity	-
Less: impact on income tax	0.8
Total	16.5

FINANCIAL HIGHLIGHTS

2. PRINCIPAL FINANCIAL DATA AND INDICATORS OF THE GROUP FOR THE PAST THREE YEARS PREPARED IN ACCORDANCE WITH PRC GAAP

Item	2004	2003		2002	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Revenue from main operations (RMB million)	22,698.2	16,036.0	16,036.0	11,009.2	11,009.2
Net profit (RMB million)	1,008.9	752.5	704.1 [#]	567.0	487.0
Total assets (RMB million)	20,850.0	15,767.0	15,833.4	12,405.8	12,216.9
Shareholder's equity (RMB million) (excluding minority interests)	9,174.4	5,043.9	4,810.4	4,276.4	4,307.6
Earnings per share (RMB)	1.05 *	1.13	1.06	1.02	0.88
Net assets per share (RMB)	9.56 *	7.56	7.21	7.69	7.75
Return on net assets	11.00%	14.92%	14.64%	13.26%	11.31%
Adjusted net assets per share (RMB)	9.49	7.29	6.94	7.50	7.56
Net cashflow per share arising from business activities (RMB)	1.71	1.71	1.71	2.55	2.55

* Based on the full dilution of 959,521,650 shares, being the total share capital of the Company as at 31 December 2004.

This is the result of retrospective adjustment of the net profit for 2003 by the Group's domestic auditors in accordance with PRC GAAP, which represents a difference of RMB66 million as compared with the unaudited net profit for 2003 of RMB638 million after making retrospective adjustment for the changes of accounting policies and rectification of accounting errors during the process of H share offering, mainly affected by the retrospective adjustment of income tax upon auditing at the end of the year.

3. RETURN ON NET ASSETS AND EARNINGS PER SHARE OF THE GROUP CALCULATED IN ACCORDANCE WITH PRC GAAP

Profit for the reporting period	Return on net assets *		Earnings per share (RMB)*	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	90.01%	158.87%	8.61	11.08
Operating profit	12.93%	22.82%	1.24	1.59
Net profit	11.00%	19.41%	1.05	1.35
Net profit after extraordinary gains or losses	10.82%	19.09%	1.03	1.33

* Calculated and completed in accordance with the requirements of Rule No. 9 of the Rules for Information Disclosure and Report Compilation by Companies with Public Listed Securities of the China Securities Regulatory Commission

FINANCIAL HIGHLIGHTS

4. CHANGES IN SHAREHOLDERS' EQUITY OF THE GROUP PREPARED IN ACCORDANCE WITH PRC GAAP

Unit: in millions RMB

Item of shareholders' equity	At the beginning of the period	Increase for the period	Decrease for the period	At the end of the period
Share capital	667.3	292.2	–	959.5
Capital surplus	2,106.0	3,385.7	–	5,491.7
Surplus reserve	624.1	361.2	–	985.3
Statutory welfare fund	214.1	37.9	–	252.0
Undistributed profit	1,221.2	1,008.9	734.6	1,495.5
Conversion difference in foreign currency statement	(8.4)	11.0	–	2.6
Cash dividends	200.2	239.8	200.2	239.8
Total shareholders' equity	4,810.4	5,298.8	934.8	9,174.4

Reasons for the changes:

- (1) The change in share capital for the reporting period was due to the implementation of the profit distribution plan for 2003 in the proportion of 2 bonus shares for every 10 shares held and the issuance of H shares of the Company.
- (2) The change in capital surplus for the reporting period was due to the share premium arising from the issuance of H shares of the Company.
- (3) The increase in undistributed profit for the reporting period was due to the net profit of 2004, and the decrease was due to the implementation of the profit distribution plan for 2003 in the proportion of 2 bonus shares for every 10 shares held, and the implementation of the profit distribution plan for 2004 pursuant to the resolutions passed at the twelfth meeting of the third session of the Board of Directors.
- (4) The change in the conversion difference in foreign currency statement for the reporting period was due to the consolidation of foreign currency statements.

FINANCIAL HIGHLIGHTS

5. MAJOR FINANCIAL DATA OF THE GROUP PREPARED IN ACCORDANCE WITH HONG KONG ACCOUNTING STANDARDS

Unit: in millions RMB

	For the year ended 31 December			
	2004	2003	2002	2001
Results				
Turnover	21,220.1	17,036.1	10,795.9	9,440.9
Cost of sales	(13,813.5)	(11,226.1)	(6,924.2)	(6,142.2)
Gross profit	7,406.6	5,810.0	3,871.7	3,298.7
Other revenue and gains	534.1	252.0	312.1	119.2
Research and development costs	(2,265.2)	(1,535.7)	(1,127.9)	(1,048.3)
Selling and distribution costs	(2,799.6)	(1,981.5)	(1,277.0)	(1,150.3)
Administrative expenses	(981.4)	(869.0)	(542.4)	(528.3)
Other operating income/(expenses), net	(162.4)	(213.9)	(212.6)	10.1
Profit from operating activities	1,732.1	1,461.9	1,023.9	701.1
Finance costs	(140.4)	(171.2)	(122.3)	(160.6)
Share of profits and losses of jointly -controlled entities and associates	3.4	(3.5)	4.8	3.2
Profit before tax	1,595.1	1,287.2	906.4	543.7
Tax	(115.3)	(198.6)	(160.3)	(108.0)
Profit before minority interests	1,479.8	1,088.6	746.1	435.7
Minority interests	(207.3)	(60.3)	(42.5)	(21.7)
Net profit from ordinary activities attributable to shareholders	1,272.5	1,028.3	703.6	414.0

Unit: in millions RMB

	As at 31 December			
	2004	2003	2002	2001
Assets and liabilities				
Total assets	21,007.8	16,476.4	12,022.8	9,042.6
Total liabilities	11,312.2	11,649.9	8,124.8	5,847.3
Minority interests	478.4	226.6	215.4	134.3
Shareholders' equity	9,217.2	4,599.9	3,682.6	3,061.0

FINANCIAL HIGHLIGHTS

6. MAJOR FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH HONG KONG ACCOUNTING STANDARDS

	2004	2003	2002	2001
Basic earnings per share (RMB/share)	1.57	1.28	0.88	0.53
Net assets per share (RMB/share)	11.37	5.74	4.60	3.91
Return on net assets	13.81%	22.35%	19.11%	13.53%

Note: In accordance with Hong Kong accounting standards, the above figures are calculated based on weighted average method. The weighted average number of ordinary shares is 810,759,661 in 2004.

7. RECONCILIATION OF DIFFERENCES OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP PREPARED IN ACCORDANCE WITH PRC GAAP AND HONG KONG ACCOUNTING STANDARDS

- (1) Analysis of the effects arising from material differences between the PRC GAAP and the Hong Kong accounting standards on net profit is as follows:

Unit: in millions RMB

	2004
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards	1,272.5
Add:	
Retirement benefits provided in accordance with HK accounting standards	1.7
Government grants and deferred development costs accounted for under PRC GAAP and Hong Kong accounting standards	24.5
Financial statements for H shares are restated for the past three years to adjust the impact of the changes in accounting estimates and other adjustment items for the current year as previous years	(289.8)
Net profit from ordinary activities attributable to shareholders under PRC GAAP	1,008.9

- (2) Analysis of the effects arising from material differences between the PRC GAAP and the Hong Kong accounting standards on shareholders' equity is as follows:

Unit: in millions RMB

	2004
Shareholders' equity under Hong Kong accounting standards	9,217.2
Add:	
Retirement benefits provided in accordance with Hong Kong accounting standards	28.9
Government grants and deferred development costs accounted for under PRC GAAP and Hong Kong accounting standards	(69.6)
Other differences	(2.1)
Shareholders' equity under PRC GAAP	9,174.4

ABUNDANT ACCUMULATED PROPRIETARY TECHNOLOGY, STRONG R&D AND INNOVATIVE CAPABILITY

The Group placed much emphasis on product research and development. We have a long-term focus on development of core technologies such as wireless communications, wireline communications, optical networks, handsets, telecommunications software systems and ASIC. By leveraging on its own intellectual property, shared technology platform and strong capability in R&D, the Group has launched new products to the market rapidly.





The Group has announced the first global digital trunking standard – GoTa independently researched and developed in China, and developed the smallest 3G handset in the world.



MAJOR EVENTS

- **In January 2004**, a new session of the Board of Directors of the Company was formed. Members of the third session of the Board of Directors were elected at the shareholders' general meeting: Mr. Hou Weigui was elected by the third session of the Board of Directors as Chairman of the Company, and Mr. Yin Yimin was appointed as President; the third session of the Board of Directors of the Company elected members of the nomination committee, remuneration and evaluation committee and audit committee.

- **In March 2004**, the Group announced the first global digital trunking standard independently researched and developed in China – GoTa (Global open Trunking architecture), becoming the pioneer among Chinese telecommunications companies in granting a patent to internationally renowned manufacturers.



- **In June 2004**, the Group entered into a contract with the Ministry of Transport and Communications of Tunisia for the construction of a WCDMA network that covers two key cities, Tunis and Sousse, and providing WCDMA equipment for commercial trial. This demonstrates that the Group has commenced construction of commercial 3G networks for international telecommunications service providers.
- **In July 2004**, the Company entered into a 3G intelligent network strategic cooperation agreement and a 3G terminal strategic partnership agreement with China Telecom, marking the full development of cooperative relations between the Company and China Telecom in the 3G domain.

- **In August 2004**, the Group donated its ADSL equipment for use in the 2004 Olympic Games in Athens, becoming the first Chinese telecommunications equipment manufacturer to successfully provide telecommunications equipment services at the Olympic Games.



- **In November 2004**, the Group succeeded in developing the world's smallest 3G handset by volume, weighing only 104 grams, which was well received at the Beijing telecommunications exposition.

- **In November 2004**, at the meeting of the ITU-T SG15 (Optical and other transport network infrastructures) held in Geneva, Switzerland, experts from the Company acted as editors, and the ITU-T G.665 (G. Raman) standard, based on the draft prepared by the Company, was discussed and formally approved for release at the meeting of the ITU. This standard has filled the gaps in the domain of research of the ITU.



- **In December 2004**, the Company issued 160,151,040 H shares which were listed on the main board of the Hong Kong Stock Exchange, making it the first A share listed company in China to successfully list in Hong Kong;



- **In December 2004**, Mr. Hou Weigui, Chairman of the Company was named "CCTV 2004 Chinese Economic Annual Figure".

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

1. CHANGES IN SHARE CAPITAL

(I) Changes in the share capital of the Company as at 31 December 2004 were as follows:

Unit: shares

	Before change	Bonus share issue (Note 1)	Increase/decrease as a result of the change Foreign shares from overseas offering (Note 2)	Reduction in state-owned shares (Note 3)	After change
I Shares not in circulation					
1. Promoter shares comprising:					
State-owned shares	386,380,800	77,276,160		(1,384,590)	462,272,370
Domestic legal person shares	29,203,200	5,840,640			35,043,840
Total shares not in circulation	415,584,000	83,116,800		(1,384,590)	497,316,210
II Shares in circulation					
1. Public shares (A shares)	251,712,000	50,342,400			302,054,400
2. Overseas listed foreign shares (H shares)	-	-	160,151,040		160,151,040
Total shares in circulation	251,712,000	50,342,400	160,151,040		462,205,440
III Total	667,296,000	133,459,200	160,151,040	(1,384,590)	959,521,650

Note 1: The Company implemented its 2003 profit distribution plan on 25 May 2004 (2 new bonus shares for every 10 shares and RMB3.00 cash dividend for every 10 shares, based on a total share capital of 667,296,000 shares of the Company as at 31 December 2003).

Note 2: The Company issued 160,151,040 H shares on the overseas market in December 2004 and was listed on the Hong Kong Stock Exchange on 9 December 2004.

Note 3: Pursuant to the relevant laws and regulations, shareholders of state-owned shares of the Company reduced their shareholdings in state-owned shares by a total of 1,384,590 shares at the time of its H share offering, representing approximately 0.9% of the total number of shares under the H share offering.

(II) Issue of new shares by the Company for the past three years ended 31 December 2004:

Issue Year	Class of shares	Date of issue	Issue price	Quantity (no. of shares)	Date of listing	No. of shares approved for listing	Date of ceasing trading
2001	A shares	13/3/2001	RMB32.7	50,000,000	6/4/2001	50,000,000	-
2004	H shares	2/12/2004	HKD22.0	160,151,040	9/12/2004	160,151,040	-

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

2. SHAREHOLDERS

(1) Number of shareholders: as at 31 December 2004, the Company had 27,877 shareholders in total (of which 26,172 were holders of A shares and 1,705 were holders of H shares).

(2) Top ten shareholders:

Ranking	Name of shareholder	Number of shares held at the end of the year (shares)	Increase/Decrease in shareholding during the year (shares)	Percentage of total share capital (%)	Number of shares pledged or locked-up	Type of shares
1	Zhongxingxin	423,221,760	+70,536,960	44.1	None	State-owned legal person shares
2	HKSCC Nominees Limited	141,973,126	+141,973,126	14.8	Unknown	Overseas listed foreign shares
3	Fortune Trust & Investment Co., Ltd	21,565,440	+21,565,440	2.2	None	Legal person shares
4	Deutsche Bank Aktiengesellschaft	19,234,362	+12,116,246	2.0	Unknown	Public shares (QFII)
5	Morgan Stanley & Co. International Ltd.	17,682,127	Unknown	1.8	Unknown	Public shares (QFII)
6	Hunan Nantian (Group) Co., Ltd	13,478,400	+2,246,400	1.4	None	Legal person shares
7	Fortis Haitong Profits Securities Investment Fund	10,150,642	Unknown	1.1	Unknown	Public shares
8	Southern Sustaining Growth Fund	8,428,785	+2,622,757	0.9	Unknown	Public shares
9	CITIC Classic Securities Investment Fund	7,359,100	Unknown	0.8	Unknown	Public shares
10	SYWG BNP Paribas Security Investment Fund	6,656,651	Unknown	0.7	Unknown	Public shares

(3) Changes in the top ten shareholders of the Company

- (1) The Company implemented its 2003 profit distribution plan on 25 May 2004, pursuant to which 2 bonus shares were issued for every 10 shares based on the total share capital as at 31 December 2003. As a result, the shareholding of the first and the sixth largest shareholders of the Company increased in this period.
- (2) The changes in the shareholding of the second largest shareholder of the Company was due to the issue of H shares by the Company.
- (3) The original third largest shareholder of the Company, Shenzhen Gaotejia Venture Investment Co., Ltd., has transferred all the shares held by it to Fortune Trust & Investment Co., Limited, and completed the share transfer procedures in March 2004. This change in shareholding was due to both the purchase of the shares and the bonus share issue by the Company.
- (4) The changes in the shareholding of the fourth and eighth largest shareholders of the Company, who were shareholders of public shares, were due to both the purchase on the secondary market and the bonus share issue by the Company.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(5) The fifth, seventh, ninth and tenth largest shareholders were shareholders of public shares who were not the top 100 shareholders of the Company as at 31 December 2003. Hence, the number of shares held by them at the beginning of the year is not known, and the change in the number of shares held by them during the year is not known.

(4) Shareholdings of the top ten shareholders

With respect to the nature of the above shares, both state-owned legal person shares and legal person shares are shares that are not in circulation, while both public shares (A shares) and overseas-listed foreign shares (H shares) are shares that are in circulation.

The largest shareholder of the Company, Zhongxingxin, does not have any connected relationships with other shareholders, and is not a concert party (as defined under the domestic provision of “Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies”) of other shareholders. The Company is not aware of any connected relationships among other shareholders or whether they are acting in concert, as defined under the domestic provision of “Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies”.

(5) Shareholdings of the top ten shareholders with shares in circulation:

Ranking	Name of shareholder	Number of shares held at the end of the year (shares)	Types of shares
1	HKSCC Nominees Limited	141,973,126	H shares
2	Deutsche Bank Aktiengesellschaft	19,234,362	A shares
3	Morgan Stanley & Co. International Limited	17,682,127	A shares
4	Fortis Haitong Profits Securities Investment Fund	10,150,642	A shares
5	Southern Sustaining Growth Fund	8,428,785	A shares
6	CITIC Classic Securities Investment Fund	7,359,100	A shares
7	SYWG BNP Paribas Securities Investment Fund	6,656,651	A shares
8	Tian Yuan Securities Investment Fund	6,000,000	A shares
9	Shenyin & Wanguo Securities Co., Ltd.	5,941,924	A shares
10	Jiu Jia Securities Investment Fund	5,685,127	A shares

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(6) Connected relationships among the top ten shareholders holding circulating shares

Among the Company's top ten shareholders with shares in circulation, Southern Sustaining Growth Fund and Tian Yuan Securities Investment Fund are managed by the same fund manager, Southern Fund Management Co., Ltd. The Company is not aware of any connected relationships among other shareholders, or whether they are acting in concert, as defined under the domestic provision of "Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies".

To the knowledge of the Company, the top ten shareholders of the Company with shares in circulation do not have any connected relationships with shareholders of the Company with shares not in circulation.

(7) Controlling shareholder of the Company

Name of controlling shareholder of the Company: Zhongxingxin

Legal representative: Zhang Taifeng

Date of incorporation: 29 April 1993

Registered capital: RMB10,000,000

Scope of business: production of programmed switchboard cabinets, telephones and related components, and electronic products; import and export operations; treatment of toxic fumes, waste water and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems.

(8) The controlling shareholders (or de facto controller) of the Company's controlling shareholder

The controlling shareholder of the Company, Zhongxingxin was jointly formed by Shenzhen Aerospace Guangyu Industrial Group Company ("Aerospace Guangyu"), Xi'an Microelectronics Technology Research Institute ("Xi'an Microelectronics") and Zhongxing WXT, each holding a 17%, 34% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 2 have been nominated by Aerospace Guangyu, 3 by Xi'an Microelectronics and 4 by Zhongxing WXT, representing 22.22%, 33.33% and 44.45% of the board of directors of Zhongxingxin respectively. Therefore, no

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

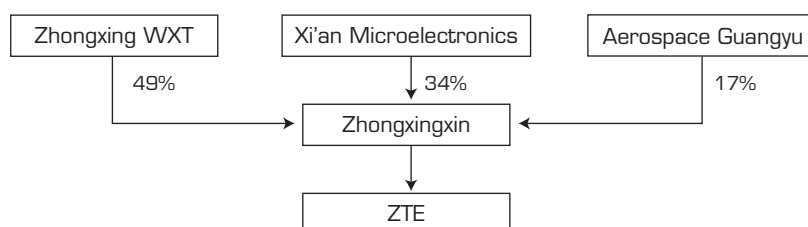
shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure and no party has effective control over the Company. Details of these three shareholders are as follows:

Aerospace Guangyu, a subsidiary of CASIC, is a wholly state-owned enterprise established on 20 March 1984. The legal representative is Xie Weiliang and the registered capital amounts to RMB17,950,000. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), warehousing.

Xi'an Microelectronics, a subsidiary of China Aerospace Times Electronics Corporation, is a large state-owned research institute, which was established in 1965 with its establishment expenses amounting to RMB198,530,000. The legal representative of the institute is Zhang Junchao. It is the only specialized research institute in China which integrates and complements the research, development and production of semiconductor integrated circuits, mixed integrated circuits and computers.

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 RMB10,000,000. The scope of business includes the development and production of telecommunications and transmission equipment, associated equipment, computer and peripheral equipment.

The following diagram shows the property rights relationship between the above units and the Company



(9) Shareholding of the public shareholders

On the basis of publicly available information known to the Board of Directors, as at 7 April 2005 the Company has sufficient public shareholding, in compliance with the minimum requirement of Hong Kong Stock Exchange Listing Rules.

(10) Changes in other shareholders

One of the original legal person shareholders of the Company, Shenzhen Gaotejia Venture Investment Co., Ltd., transferred all the shares held by it to Fortune Trust & Investment Company, Limited and the share transfer procedure was completed in March 2004. These shares were shares that were not in circulation.

One of the original legal person shareholders of the Company, China Precision Machinery Import & Export Shenzhen Company, transferred all the shares held by it to CASIC Shenzhen (Group) Company, Limited and the share transfer procedure was completed in September 2004. These shares were shares that were not in circulation.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Directors

Hou Weigui, 63, is the Chairman of the Board of Directors and a non-executive Director of the Company and was initially appointed in November 1997. Mr. Hou is one of the founders of Shenzhen Zhongxing Semiconductor Co., Ltd., and Zhongxingxin. He was the President of the Company responsible for its overall operational management since the Company was listed on the Shenzhen Stock Exchange in 1997 to February 2004. Mr. Hou is a senior engineer and is currently the Vice-chairman of Zhongxingxin as well as the Chairman of Zhongxing WXT. He has extensive experience in the telecommunications business and over 35 years of management experience. His term of office is from February 2004 to February 2007.

Yin Yimin, 41, is an executive Director of the Company and was initially appointed in November 1997. He was appointed in 2004 as President and is responsible for the day-to-day

management and operation of the Company. Mr. Yin is a senior engineer and graduated from the Nanjing University of Posts and Telecommunications in 1988 with a Master of Science degree in engineering, specializing in telecommunications and electronic systems. Mr. Yin served as a Manager of the Research and Development Department of Shenzhen Zhongxing Semiconductor Co., Ltd. from 1991, and as Deputy General Manager of Zhongxingxin between 1993 and 1997. During the periods from 1997 to 1999 and 1999 to 2004, he served as the Company's Vice-President and Senior Vice-President respectively and was in charge of different divisions such as research and development, marketing, sales and handsets operations. He has many years of experience in the operation of telecommunications business and over 14 years of management experience. His term of office is from February 2004 to February 2007.

Shi Lirong, 41, is an executive Director of the Company and was initially appointed in February 2001. Mr. Shi has been a Senior Vice President of the Company since 1999 and is responsible for marketing and sales functions

of the Company. He is a senior engineer graduated from Shanghai Jiao Tong University in 1989 with a Master of Science degree in engineering, specializing in telecommunications and electronic engineering. Mr. Shi served as an engineer in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was the Deputy General Manager of Zhongxingxin, and from 1997 to 1999, the Vice-President of the Company responsible for marketing and sales functions of the Company. He has many years of experience in the telecommunications industry and over 14 years of management experience. His term of office is from February 2004 to February 2007.

He Shiyu, 38, is an executive Director of the Company and was initially appointed in February 2001. He has been the Company's Senior Vice President responsible for handset operations since 1999. Mr. He is a senior engineer graduated from Beijing University of Posts and Telecommunications in 1990 with a Master of Science degree in engineering, specializing in electromagnetic field and

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

microwave technology. Mr. He joined Zhongxingxin in 1993 and previously was the chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's Vice-President from 1998 to 1999, responsible for divisions such as research and development and marketing. He has many years of experience in the telecommunications industry as well as over 12 years of management experience. His term of office is from February 2004 to February 2007.

Wang Zongyin, 60, is a Vice Chairman of the Board of Directors and a non-executive Director of the Company and was appointed in February 2004. Mr. Wang is currently the general manager of China Aerospace Times Electronics Corporation. He graduated from the Faculty of Mechanical Engineering, Beijing Institute of Technology in 1968, specializing in rocket design. He also previously served as the secretary to the Party Committee of the First Institute of CASC. He has substantial experience in management and operations. His term of office is from February 2004 to February 2007.

Xie Weiliang, 49, is a Vice Chairman of the Board of Directors and a non-executive Director of the Company and was appointed in February 2004. Mr. Xie is currently the general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. and Shenzhen Aerospace Guangyu Industrial

(Group) Co. He graduated from the Faculty of Politics, National University of Defense Technology in 1982 and holds the title of professor. He also previously served as the head of Nanjing Aerospace Management Cadres Institute, and possesses substantial experience in management and business operations. His term of office is from February 2004 to February 2007.

Zhang Junchao, 51, is a non-executive Director of the Company, and was appointed in February 2004. Mr. Zhang is currently a deputy secretary to the Party Committee of China Aerospace Times Electronics Corporation, head of its Shaanxi Management Division and head of Xi'an Microelectronics. Mr. Zhang graduated from the Faculty of Electronic and Wirelss Electricity Engineering, Xi'an Jiaotong University in 1977. He also previously served as the deputy head of the Ninth Research Institute of CASC. His term of office is from February 2004 to February 2007.

Li Juping, 49, is a non-executive Director of the Company, and was initially appointed in April 1999. Mr. Li is currently the chief engineer of China Aerospace Times Electronics Corporation. He graduated from the Department of Technical Physics, Northwest Institute of Telecommunications Engineering (now known as Xidian University) in 1982, and holds the title of researcher. He previously was

the head of Xi'an Microelectronics and the general manager of Lishan Microelectronics. His term of office is from February 2004 to February 2007.

Dong Lianbo, 48, is a non-executive Director of the Company, and was appointed in February 2004. Mr. Dong is currently the deputy general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. Mr. Dong graduated from Northeastern University in Business Administration in 2001. He holds the title of researcher and is a senior engineer. He also previously served as the director and deputy general manager of Shenyang Aerospace Xinguang Group. His term of office is from February 2004 to February 2007.

Tan Shanyi, 60, is a non-executive Director of the Company, and was initially appointed in July 2003. Mr. Tan is currently a member of the Party Committee and the deputy general manager of Hunan Provincial Telecommunications Company under China Telecom in charge of finance, planning and construction. Mr. Tan graduated from Xiang Tan University with an associate degree in law in 1990. Mr. Tan has tendered his resignation, which will become effective upon approval by the shareholders at the 2004 annual general meeting.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Zhu Wuxiang, 39, is an independent non-executive Director of the Company, and was initially appointed in July 2003. Mr. Zhu is currently a professor and deputy chairman of the Department of Finance of the School of Economics and Management, Tsinghua University. Mr. Zhu graduated from Tsinghua University in 2002, specializing in economics and has obtained a doctorate degree. He has been studying and working at Tsinghua University since 1982. His term of office is from February 2004 to February 2007.

Chen Shaohua, 43, is an independent non-executive Director of the Company, and was initially appointed in July 2003. Mr. Chen is currently a professor and the deputy head of the Accounting Development and Research Centre of Xiamen University. Mr. Chen graduated from Xiamen University in 1992, specializing in accounting, and has obtained a doctorate degree. Since 1983, he has been engaged in teaching and scientific research at the Department of Accounting of Xiamen University. He is currently involved in various accounting research and consultancy projects. Mr. Chen is a member of the Accounting Society of China, the Chinese Institute of Certified Public Accountants and the Chinese Accounting Professors Association. He is a financial adviser to a number of medium to large-scale enterprises. His term of office is from February 2004 to February 2007.

Qiao Wenjun, 34, is an independent non-executive Director of the Company, and was initially appointed in July 2003. Mr. Qiao is currently a partner of Zhong Lun Law Firm and is the head of its Shanghai office. He is a lawyer and graduated from Fudan University in 1999, specializing in company law, and has obtained a master's degree in law. He had held various posts at Shanghai People's Municipal Government Overseas Chinese Affairs Department, and from 1995 to 2001, he was a partner of Pudong Law Firm. His term of office is from February 2004 to February 2007.

Tan Zhenhui, 61, is an independent non-executive Director of the Company, and was appointed in February 2004. Mr. Tan is currently a professor and the President of Beijing Jiao Tong University. He graduated from Southeast University in 1987, specializing in telecommunications and electronic systems, and has obtained a doctorate degree in engineering. He has tendered his resignation, which will become effective upon approval by the shareholders at the 2004 annual general meeting.

Mi Zhengkun, 59, is an independent non-executive Director of the Company, and was appointed in February 2004. Mr. Mi is currently a professor of the Telecommunications Engineering Department of Nanjing University of Posts and Telecommunications. Mr. Mi

graduated from Nanjing University of Posts and Telecommunications in 1981, specializing in telecommunications, and has obtained a master's degree. He is a member of the expert panel of ITU-T. He is currently involved in various scientific research and development projects at the State and provincial levels. His term of office is from February 2004 to February 2007.

Li Jin, 37, is an independent non-executive Director of the Company, and was appointed in June 2004. Mr. Li is currently the vice president of Technology Exchange Ltd. Prior to joining Technology Exchange Ltd., he was a partner at Linklaters, an international law firm. Mr. Li studied biochemistry at Peking University in China and received his juris doctor degree from Columbia University Law School in the United States in 1994. His term of office is from June 2004 to February 2007.

Joint Company Secretaries

Feng Jianxiong, 31, the joint company secretary of the Company. Mr. Feng joined Zhongxingxin in July 1996. He has been the Head of the Investment Department of the Company since 2000 and is now the Head of the Securities and Finance Department. He was appointed as the Secretary to the Board of Directors in 2000. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor's degree in international finance.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

His term of office is from February 2004 to February 2007.

Suen Pui Yee, Samantha, 49, is a joint company secretary of the Company. Ms. Suen is the managing director of KCS Limited, a leading corporate secretarial and accounting services provider in Hong Kong. She was the principal of KPMG Hong Kong, responsible for its corporate services division until KCS Limited became independent from KPMG in July 2003. Ms. Suen specializes in professional corporate secretarial services with more than 20 years' experience in corporate governance, administration and management. She has provided services to many listed companies over the years. Ms. Suen is a fellow member of The Hong Kong Institute of Company Secretaries, The Institute of Chartered Secretaries and Administrators of the United Kingdom and a fellow of the Taxation Institute of Hong Kong. Ms. Suen was appointed as the joint company secretary of the Company in November 2004. Her term of office is from November 2004 to February 2007.

Supervisors

Zhang Taifeng, 63, is a Supervisor of the Company. He is currently the convenor of the Supervisory Committee of the Company and has been the Chairman of the Board of Directors from November 1997 to February 2004. He joined

Zhongxingxin in April 1993, and has previously held the positions of chief engineer and head of State-owned No. 691 Factory and head of X'ian Microelectronics. Mr. Zhang graduated from Jilin University with a bachelor's degree in semiconductor technology. His term of office is from February 2004 to February 2007.

Cui Hongwei, 43, is a Supervisor of the Company. She has been serving in the Equipment Department of Jilin Posts and Telecommunications Equipment Company since 1983, and is now the manager of the Equipment Department. Ms. Cui graduated from Northeast China Normal University in December 1995 with a bachelor's degree in Chinese. Ms. Cui joined the Company in July 2003. She has tendered her resignation, which will become effective upon approval by the shareholders at the 2004 annual general meeting.

Cao Quansheng, 43, is a Supervisor of the Company. He served as the deputy chief of the Audit Division of Hebei Provincial Posts and Telecommunications Administrative Bureau. Mr. Cao has been the deputy director of the Financial Department of the Hebei Provincial Communications Corporation since May 2001. Mr. Cao joined the Company in July 2003. Mr. Cao has tendered his resignation, which will become effective upon approval by the shareholders at the 2004 annual general meeting.

Li Jinhu, 47, is a Supervisor of the Company, and has served as the director of the Auditing Division in Shanxi Mobile Telecommunications Corporation Limited. Mr. Li has been the Director of the Financial Department of Shanxi Provincial Communications Service Company since August 2002. Mr. Li joined the Company in February 2004. Mr. Li has tendered his resignation, which will become effective upon approval by the shareholders at the 2004 annual general meeting.

Li Huanru, 54, is a Supervisor of the Company, and has been the chief accountant of Financial Planning Office of Xi'an Telecommunications Bureau. She is currently a director of the Financial Planning Office of Shaanxi Telecommunications Industrial Company. Ms. Li joined the Company in February 2001. Ms. Li has tendered her resignation, which will become effective upon approval by shareholders at the 2004 annual general meeting.

Wang Wangxi, 38, is a Supervisor of the Company. From June 1991 to October 1994, Mr. Wang worked as a teacher in the Electronic Engineering faculty of Southeastern University. Mr. Wang joined Zhongxingxin in October 1994. He served as the chief executive officer of Zhongxing Telecom Pakistan (Pvt) Ltd., and deputy general manager of the Company's First Sales Division. Mr. Wang is

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

currently working as the director of the Human Resources Division of the Company. He graduated from the Electronic Engineering faculty of Southeast University in 1991 with a master's degree in electro-physics and devices. His term of office is from February 2004 to February 2007.

He Xuemei, 34, is a Supervisor of the Company. Ms. He worked at the Student Affairs Department of Chongqing University, and has been the responsible officer of the labour union of the Company since January 1998. Ms. He graduated from Chongqing University in 1995 with a combined bachelor's degree in business administration and resource and environmental engineering. She joined the Company in January 1998. Her term of office is from February 2004 to February 2007.

Senior Management

Yin Yimin is the President of the Company. Please refer to his biography under the paragraph headed "Directors" in this section.

Shi Lirong is a Senior Vice President of the Company. Please refer to his biography under the paragraph headed "Directors" in this section.

He Shiyong is a Senior Vice President of the Company. Please refer to his biography under the paragraph headed "Directors" in this section.

Wei Zaisheng, 42, has been a Senior Vice President of the Company since 1999 and the chief financial officer of the Company since 1997. During the period of 1997 to 1999, he was the Vice President of the Company. Mr. Wei graduated from the Peking University with a master's degree in business administration in 2004. He joined Shenzhen Zhongxing Semiconductor Co., Ltd. in October 1988 and has served as the chief financial officer and an assistant to the general manager of Zhongxingxin. Mr. Wei has many years of experience in the telecommunications industry including more than 16 years of management experience. His term of office is from February 2004 to February 2007.

Xie Daxiong, 41, was appointed in 2004 a Senior Vice President of the Company and is currently the general manager of the mobile business division. Mr. Xie is a senior engineer and holds the title of professor. He graduated from the Nanjing University of Science and Technology in 1986, specializing in applied mechanics, and has obtained a master's degree. Mr. Xie joined Zhongxingxin in 1994 and has been the head of the Nanjing Research Institute of Zhongxingxin. From 1997 to February 2004, Mr. Xie was the products manager, and subsequently the general manager of the Company's CDMA Division. Mr. Xie has many years of experience in the telecommunications industry and

more than 8 years of management experience. His term of office is from February 2004 to February 2007.

Zhou Susu, 50, has been a Senior Vice President of the Company since 2001, currently in charge of human resources and the President's Office. During the period of 1997 to 2001, she was a Vice President of the Company. Ms. Zhou is a senior engineer graduated from the Hong Kong University of Science and Technology in 2004, specializing in business administration, and has obtained a master's degree. Ms. Zhou joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1990. From 1993 to 1997, she served as the manager of the Research and Development Division and deputy general manager of Zhongxingxin. Ms. Zhou has many years of experience in the telecommunications industry and more than 14 years of management experience. Her term of office is from February 2004 to February 2007.

Fang Rong, 40, has been a Vice President of the Company since 1998, currently the general manager of the Fourth Sales Division. Ms. Fang, a senior engineer, graduated from the Nanjing University of Posts and Telecommunications in 1987, specializing in telecommunications engineering. From 1987 to 1995, Ms. Fang carried out research and development work in the Posts

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and Telecommunications Office of the Wuhan Academy of Postal and Telecommunications Sciences. From 1995 to 1997, she worked in marketing in Zhongxingxin. Ms. Fang has many years of experience in the telecommunications industry and more than 9 years of management experience. Her term of office is from February 2004 to February 2007.

Chen Jie, 46, is a Vice President of the Company and concurrently the general manager of the Networking Operations Division. Ms. Chen graduated from the New York University's Department of Computer Science in 1994 with a double master's degree. From 1989 to 1992, Ms. Chen was a manager of the Development Division of Shenzhen Zhongxing Semiconductor Co., Ltd. From 1995 to 1998, she was the senior researcher and manager of the Research Department of AT&T Bell Laboratory. From 1998 to 2002, she served as the general manager of the Company's subsidiaries in the US. Since 2002, she has been serving as the Vice President of the Company and the General Manager of the Networking Operations Division. Ms. Chen has many years of experience in the telecommunications industry and more than 8 years of management experience. Her term of office is from February 2004 to February 2007.

Ding Mingfeng, 35, has been a Vice President of the Company since 1998 and is currently responsible for research and development. Mr. Ding graduated from Harbin Institute of Technology in 1994, specializing in computer science and has obtained a master's degree. From 1994 to 1995, Mr. Ding carried out research and development work in Zhongxingxin. From 1995 to 1997, he served as deputy head of Zhongxingxin's Nanjing Research Institute. He has many years of experience in the telecommunications industry and more than 8 years of management experience. His term of office is from February 2004 to February 2007.

Tian Wenguo, 36, is a Vice President and general manager of Second Sales Division of the Company. Mr. Tian graduated from Harbin Institute of Technology in 1991, specializing in electromagnetic surveys and devices. Mr. Tian joined Zhongxingxin in 1996, and from 1997 to 2002, he has been the manager of the Company's Chongqing Sales Office and the general manager of the Southwest Region. Mr. Tian has many years of experience in the telecommunications industry and more than 7 years of management experience. His term of office is from February 2004 to February 2007.

Zhang Chuanhai, 39, is a Vice President of the Company since 2002 and is currently the general manager of the Third Sales Division. Mr. Zhang graduated from the China Academy of Post & Telecommunications in 1990, specializing in telecommunications and electronic systems, and has obtained a master's degree. From 1991 to 1993, Mr. Zhang carried out research and development work in Shenzhen Zhongxing Semiconductor Co., Ltd. He joined Zhongxingxin in 1994, and from 1997 to 2002, he served as general manager of the Company's Southern China Sales Region and deputy general manager of the Second Sales Division. Mr. Zhang has many years of experience in the telecommunications industry and more than 7 years of management experience. His term of office is from February 2004 to February 2007.

Ye Weimin, 38, is a Vice President of the Company and is currently the general manager of Fifth Sales Division since 2001. Mr. Ye graduated from Shanghai Jiao Tong University in 1988, specializing in computer science and engineering. He joined Zhongxingxin in 1994 and has served as the head of Customer Services Division. From 1997 to 2001, he served as the chief officer of the Company's Central

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Laboratory, deputy general manager of Third Sales Division, and general manager of Mobile Business Division. Mr. Ye has many years of experience in the telecommunications industry and more than 10 years of management experience. His term of office is from February 2004 to February 2007.

Qiu Weizhao, 41, has been a Vice President of the Company in charge of procurement of raw materials and components and he is the president of the Company's subsidiary, ZTE Kangxun since 1999. Mr. Qiu, a senior engineer, graduated from Xidian University in 1988, specializing in telecommunications and electronic systems, and has obtained a master's degree. Mr. Qiu joined Changde Wired Communication (Group) Company in 1998 and served as the deputy general manager. He joined the Company in 1998. His term of office is from February 2004 to February 2007.

Ni Qin, 45, has been a Vice President of the Company since 1998, currently in charge of IT construction. Mr. Ni graduated from Shanghai School of Posts and Telecommunications in 1981, specializing in telecommunications. From 1981 to 1994, Mr. Ni carried out technological research and development work in Shanghai Postal and Telecommunication Research Institute No.1. He served as head of Zhongxingxin's Shanghai Research Institute from 1994 to 1997. His term of office is from February 2004 to February 2007.

Zhao Xianming, 38, has been a Vice President of the Company since 2004 and is currently the general manager of the CDMA Business Division. Mr. Zhao graduated from the Harbin Institute of Technology in 1997, specializing in telecommunications and electronic systems and has obtained a doctorate degree. From 1991 to 1998, Mr. Zhao

served as an associate professor of the Communication Engineering Teaching and Research Office of Harbin Institute of Technology. He joined the Company in 1998 and has been the project manager of the CDMA Product Research & Development Group in the Mobile Division. His term of office is from February 2004 to February 2007.

Xu Huijun, 31, has been a Vice President of the Company since 2004 and is currently the general manager of the General Products Division. Mr. Xu graduated from the Tsinghua University in 1998, specializing in electronic engineering and has obtained a master's degree. He joined the Company in 1998 and has served as a project manager of the General Products Division, and subsequently the head of Beijing Research Centre. His term of office is from February 2004 to February 2007.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

No.	Name	Title	No. of shares held at beginning of the reporting period (shares)	Change in the no. of shares during the reporting period (shares)	No. of shares held at end of the reporting period (shares)
1	Hou Weigui	Chairman	146,400	+29,280	175,680
2	Yin Yimin	Director, President	81,120	+16,224	97,344
3	Shi Lirong	Director, Senior Vice President	63,840	+12,768	76,608
4	He Shiyu	Director, Senior Vice President	60,672	+12,134	72,806
5	Zhang Taifeng	Convenor of the Supervisory Committee	81,120	+16,224	97,344
6	Wei Zaisheng	Senior Vice President, Chief Financial Officer	63,840	+12,768	76,608
7	Xie Daxiong	Senior Vice President	29,892	+5,979	35,871
8	Zhou Susu	Senior Vice President	63,840	+12,768	76,608
9	Fang Rong	Vice President	27,590	+5,518	33,108
10	Chen Jie	Vice President	63,000	+12,600	75,600
11	Ding Mingfeng	Vice President	41,171	+8,234	49,405
12	Tian Wenguo	Vice President	16,200	+3,240	19,440
13	Zhang Chuanhai	Vice President	6,600	+1,320	7,920
14	Ye Weimin	Vice President	22,536	+4,507	27,043
15	Ni Qin	Vice President	52,560	+10,512	63,072

Note: Save as disclosed above, no other Directors, Supervisors and senior management personnel held any shares in the Company during the reporting period.

(3) INFORMATION CONCERNING DIRECTORS AND SUPERVISORS HOLDING POSITIONS IN SHAREHOLDERS OF THE COMPANY

Name	Name of shareholder	Position in the shareholder	Term of office
Hou Weigui	Zhongxingxin	Vice Chairman	4/2004 – 4/2007
Xie Weiliang	Zhongxingxin	Vice Chairman	4/2004 – 4/2007
Zhang Junchao	Lishan Microelectronics Corporation	General Manager	From 10/2003
Dong Lianbo	Zhongxingxin	Director	4/2004 – 4/2007
Yin Yimin	Zhongxingxin	Director	4/2004 – 4/2007
Shi Lirong	Zhongxingxin	Director	4/2004 – 4/2007
Zhang Taifeng	Zhongxingxin	Chairman	4/2004 – 4/2007
Cui Hongwei	Jilin Posts and Telecommunications Equipment Company	Manager of the Engineering Equipment Department	4/2003 – 4/2006
Li Huanru	Shaanxi Telecommunications Industrial Company	Supervisor of the Planning and Finance Department	6/2001 – 6/2005

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Name	Name of entity in which position is held	Position
Hou Weigui	Zhongxing WXT	Chairman
	Holds positions in 3 controlling subsidiaries including ZTE (USA) Inc.	Chairman/Director
Wang Zongyin	China Aerospace Times Electronics Corporation	General Manager
	Long March Launch Vehicle Technology, Co., Ltd	Chairman
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial (Group) Company	General Manager
Zhang Junchao	Xi'an Microelectronics	Head
Li Juping	China Aerospace Times Electronics Corporation	Chief Engineer
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial (Group) Company	Deputy General Manager
Tan Shanyi	Hunan Provincial Telecommunications Company	Deputy General Manager
Zhu Wuxiang	Tsinghua University	Professor
Chen Shaohua	Xiamen University	Professor
Qiao Wenjun	Zhong Lun Law Firm	Partner
Tan Zhenhui	Northern China Jiao Tong University	President
Mi Zhengkun	Nanjing University of Posts and Telecommunications	Professor
Li Jin	Technology Exchange Ltd	Vice President
Zhang Taifeng	Holds positions in 3 controlling subsidiaries including ZTE Kangxun	Chairman/Director
Yin Yimin	Holds positions in 5 controlling subsidiaries including ZTE Kangxun	Chairman/Director
Shi Lirong	Holds positions in 10 controlling subsidiaries including ZTE Kangxun	Chairman/Director
He Shiyu	Holds positions in 4 controlling subsidiaries including Shenzhen Changfei Investment Company, Limited	Chairman/Director
Wei Zaisheng	Holds positions in 5 controlling subsidiaries including ZTE Kangxun	Director
Xie Daxiong	Holds positions in 4 controlling subsidiaries including ZTE Integration Telecom Ltd.	Chairman/Director
Zhou Susu	Holds positions in 2 controlling subsidiaries including ZTE (H.K.) Limited	Chairman/Director
Fang Rong	Holds positions in 6 controlling subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Chairman/Director
Chen Jie	Holds positions in 6 controlling subsidiaries including Nanjing Zhong Xing Software Development Technology Co., Ltd.	Chairman/Director
Ding Mingfeng	Holds positions in 6 controlling subsidiaries including ZTE (H.K.) Limited	Chairman/Director
Tian Wenguo	Beijing Zhongxing Telecom Ltd.	Director
Zhang Chuanhai	Anhui Wantong Posts and Telecommunications Company, Limited	Director
Ye Weimin	Holds positions in 2 controlling subsidiaries including Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	Chairman
Qiu Weizhao	Holds positions in 2 controlling subsidiaries including ZTE (H.K.) Limited	Director
Zhao Xianming	Zimax (Cayman) Holding Co.	Director
Xu Huijun	Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Director
Feng Jianxiong	Holds positions in 2 controlling subsidiaries including Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Supervisor

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(5) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. Changes in Directors

The first extraordinary general meeting of the Company for 2004 held on 15 January 2004 considered and approved the resolution regarding replacement of the Board and election of Directors for the third session. The cumulative voting system was adopted, and Messrs. Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping, Dong Lianbo, Tan Shanyi, Yin Yimin, Shi Lirong and He Shiyu were elected as non-independent Directors of the third session of the Board of Directors of the Company; and Messrs. Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Tan Zhenhui and Mi Zhengkun were elected as independent Directors of the third session of the Board of Directors of the Company. At the first meeting of the third session of the Board of Directors of the Company held on 15 January 2004, Mr. Hou Weigui was elected as chairman of the Board of Directors, and Messrs. Wang Zongyin and Xie Weiliang were elected as vice chairmen of the third session of the Board of Directors of the Company.

The second extraordinary general meeting of the Company for 2004 held on 30 June 2004 considered and approved the resolution for appointment of

independent Directors. The Company appointed Li Jin as an independent Director of the third session of the Board of Directors of the Company with his term of office from 30 June 2004 to 7 February 2007.

Mr. Tan Shanyi has tendered his resignation, and such resignation shall become effective upon approval by the shareholders in the 2004 general meeting. Mr. Tan Zhenhui has tendered his resignation, and such resignation shall become effective upon approval by the shareholders in the 2004 general meeting.

2. Changes in Supervisors

At the first 2004 extraordinary general meeting of the Company held on 15 January 2004, the resolution on the replacement of the Supervisory Committee and the election of shareholders' representatives as third session Supervisors was approved. Ms. Li Huanru, Ms. Cui Hongwei, Mr. Cao Quansheng and Mr. Li Jinhu were elected as shareholder representative Supervisors of the third session of the Supervisory Committee. On the other hand, the employee representatives of the Company elected Mr. Zhang Taifeng, Mr. Wang Wangxi and Ms. He Xuemei as Supervisors to the third session of the Supervisory Committee. At the first meeting of the third session of the Supervisory Committee of the Company on 15 January 2004, Mr. Zhang Taifeng was elected as the convenor of the third session of the Supervisory Committee.

Four of the Supervisors, Ms. Li Huanru, Ms. Cui Hongwei, Mr. Cao Quansheng and Mr. Li Jinhu had tendered their resignation, and such resignations shall become effective upon approval by the shareholders in the 2004 general meeting.

3. Changes in the senior management personnel

At the second meeting of the third session of Board of Directors of the Company held on 15 January 2004, the resolution on appointment of new senior management personnel of the Company was approved. Mr. Yin Yimin was appointed as the President of the Company, and Mr. Shi Lirong, Mr. He Shiyu, Mr. Wei Zaisheng, Mr. Xie Daxiong, Ms. Zhou Susu, Ms. Fang Rong, Ms. Chen Jie, Mr. Ding Mingfeng, Mr. Tian Wenguo, Mr. Zhang Chuanhai, Mr. Ye Weimin, Mr. Giu Weizhao, Mr. Ni Qin, Mr. Zhao Xianming and Mr. Xu Huijun were appointed as Vice Presidents. Mr. Wei Zaisheng was also appointed the Chief Financial Officer of the Company. Mr. Feng Jianxiong was appointed Secretary to the Board of Directors.

(6) SERVICE CONTRACTS AND CONTRACTUAL INTERESTS OF DIRECTORS AND SUPERVISORS

None of the Directors and Supervisors have entered into

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

any service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

(7) DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the Directors and Supervisors were materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2004.

(8) DIRECTORS', SUPERVISORS' AND PRESIDENT'S INTERESTS IN SHARES OR DEBENTURES

The interests in shares of the Company held by Directors, Supervisors and the President of

the Company as at 31 December 2004 are set out on page 33 of this Annual Report.

Save as disclosed above, as at 31 December 2004, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares or 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 the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 31 December 2004, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for shares or debentures of the Company or its associated corporations.

(9) DEFERRED SHARE BONUS SCHEME

Details of the deferred share bonus scheme are set out in note 37 to the financial statements prepared in accordance with Hong Kong accounting standards.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(10) ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

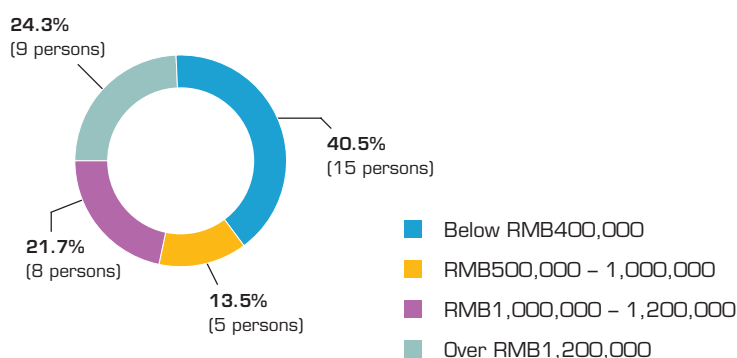
1. Remunerations of Directors, Supervisors and senior management for the year are as follows:

	Unit: RMB
Aggregate annual remuneration	23,887,000
Aggregate amount of remuneration of Directors	6,287,000
Aggregate remuneration for the 3 highest paid Directors	4,235,000
Aggregate amount of remuneration of Supervisors	2,389,000
Aggregate remuneration for the 3 highest paid senior management personnel	4,285,000
Aggregate allowances for independent Directors	335,000
Directors and Supervisors who do not receive any remuneration or allowance from the Company	Nil

Note: Non-executive Directors and independent Directors of the Company receive a monthly allowance of RMB5,000 during their terms of office. All traveling and accommodation expenses and such other related expenses incurred upon their attendance at board meetings shall be borne by the Company.

Total No. of Persons: 37

Bands of remuneration of the Directors, Supervisors and senior management personnel



Further details of the remuneration of Directors and Supervisors for the year are set out in note 8 to the financial statements prepared in accordance with Hong Kong accounting standards.

Further details of the remuneration of the 5 highest paid individuals of the Company for the year are set out in note 9 to the financial statements prepared in accordance with Hong Kong accounting standards.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

- Decision-making process and criteria for deciding remuneration for Directors, Supervisors and senior management

The remuneration and evaluation committee makes recommendations on the allowances for Directors by reference to the work performance of Directors as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the shareholders' general meeting.

The Supervisory Committee makes recommendations on the allowances for Supervisors by reference to the working conditions of Supervisors as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval at general meetings.

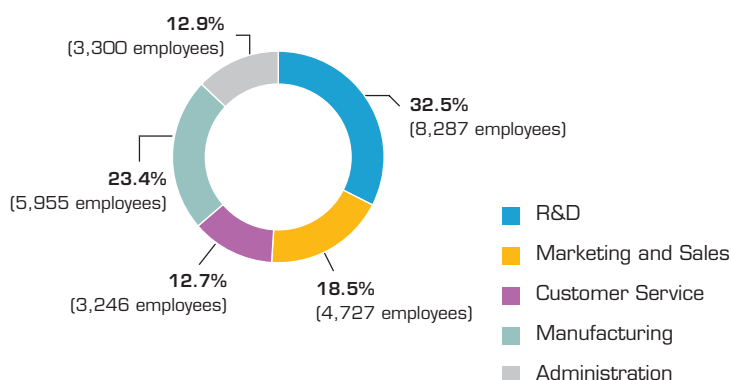
As at the end of the reporting period, the Company determined the remuneration for senior management personnel through a management grading system, pursuant to which the remuneration and evaluation committee would conduct appraisals at the beginning of each year on the performance of the President for the previous year and determine his remuneration. The President would in turn conduct appraisals at the beginning of each year on the performance of other senior management personnel for the previous year and determine their remuneration.

(11) THE GROUP'S EMPLOYEES AND JOB DIVISION

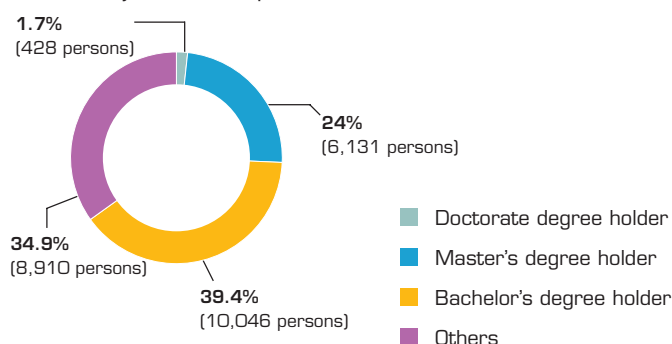
As at the end of the year,
the Group

Total Employees	25,515
Average Age	30
Retired Employees	15

Classification by specialisation:



Classification by academic qualifications:



Note: The number of employees disclosed in the 2003 annual report represents the employees employed by the Company but not those employed by the Group.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(12) STAFF REMUNERATION SYSTEM

The remuneration package of the employees of the Group includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable Chinese regulations, we currently participate in social insurance contribution plans organized by the relevant local governments, under which we are required to pay in respect of each of our relevant employees a monthly contribution of an amount equal to a specified percentage of our employees' monthly salaries.

(13) HUMAN RESOURCES STRATEGY IN 2004

In 2004, the Group has adopted a competitive remuneration benefit and comprehensive promotion system in certain recruitment schemes in order to secure the demand for human resources arising from the rapid growth of operation of the Group and maintain the human resources competitiveness of the Group in the industry. The Group has continually implemented its localization strategy to attract and retain persons with talents from various overseas market to facilitate its expansion plan to overseas market.

CORPORATE GOVERNANCE

1. DESCRIPTION OF CORPORATE GOVERNANCE

Shareholders and shareholders' general meetings: The Company has established a corporate governance structure to ensure that all shareholders can fully exercise their rights and enjoy equal status, in particular, for minority shareholders. General meetings, which are to be convened and held legally and validly, should provide sufficient time for the discussion of each proposal and provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders can contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

Controlling shareholder and the listed company: the Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law without jeopardizing the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with rules and regulations and the terms and procedures as set out in the Articles of Association of the Company. The staffing, assets, financial affairs, organisation and business of the controlling shareholder is independent to those of the listed company, with each of the controlling

shareholder and listed company carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the shareholders' general meeting.

Directors and Board of Directors: the Company appoints directors in strict compliance with the procedures set out in its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent way. To reflect the opinions of minority shareholders effectively, a cumulative voting scheme was adopted for the appointment of directors. The Board of Directors has a professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedures for Board of Directors' meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board of Directors' meetings. To optimize the corporate governance structure, three specialist committees – the nomination committee, audit committee and remuneration and evaluation committee – have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members in each of these committees are independent directors and independent directors act as conveners,

providing scientific and professional opinions and reference for the decision-making by the Board.

Supervisors and Supervisory Committee: the Supervisors possess professional knowledge and work experience in legal, accounting and other areas, who monitor the finance and supervise the lawful and regulatory performance of duties by the Company's Directors, the President and other senior management personnel, and safeguard the legal rights and interests of the Company and shareholders. A set of rules of procedure for the Supervisory Committee meetings has been formulated. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

Results appraisal and incentive binding mechanism: during the reporting period, the remuneration and evaluation committee of the Board has linked the salaries of senior management personnel with the results of the Company and personal performance of the individual, in accordance with the Proposal on the Management of Remuneration and Performance of Senior Management Personnel. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association.

CORPORATE GOVERNANCE

Stakeholders: the Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community and work together with these stakeholders actively to promote the sustainable and healthy development of the Company.

Information disclosure and transparency: the secretary to the Board and relevant officers in the Security and Finance Department are responsible for the Company's information disclosure obligations and reception of visits by shareholders and handling of shareholder enquiries. The Company discloses relevant information in strict compliance with rules and regulations and the Articles of Association in a true, accurate, complete and timely manner, and ensures that all shareholders have an equal

opportunity to obtain access to information.

2. PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

In June 2004, Li Jin was appointed as an additional independent non-executive Director of the third session of the Board of Directors. The number of independent non-executive Directors has been increased to six. The independent non-executive Directors have substantial experience in the telecommunications, financial, legal and banking areas, and assist in ensuring that the interests of shareholders as a whole are safeguarded by the Board. During the reporting period, the independent non-executive Directors' function in perfecting the corporate governance structure of the

Company and protecting the interests of minority shareholders was particularly evident. During the reporting period, independent non-executive Directors of the Company raised no objections on the resolutions passed by the Board meetings and other matters of the Company. In relation to important matters for which they were required to give independent opinions (including connected transactions, allowances for directors, remuneration for senior management personnel and performance management), the independent non-executive Directors have seriously considered the matters and have issued written independent opinions. The independent non-executive Directors provided valuable and professional recommendations on major decisions by the Company, raising the science and objectiveness of Company decisions.

Attendance of independent Directors at Board meetings are as follows:

Name of independent Director	No. of Board Meetings requiring attendance	Attendance in person	Attendance by proxy	Absent
Zhu Wuxiang	11	11	0	0
Chen Shaohua	11	11	0	0
Qiao Wenjun	11	9	2	0
Tan Zhenhui	11	10	1	0
Mi Zhengkun	11	9	1	1
Li Jin	5	5	0	0

Note: In June 2004, the Company appointed Li Jin as an additional independent non-executive Director in the third session of the Board of Directors. Mr. Li Jin was required to attend five Board meetings, that is, from the seventh meeting to eleventh meeting of the third session of the Board of Directors.

CORPORATE GOVERNANCE

3. "FIVE SEPARATIONS"

The Company is independent of the staff, assets, finance, organisation and business of its controlling shareholder Zhongxingxin. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to staffing, the Company is completely independent in the management of labour, human resources, salaries, among others. The senior management personnel receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder nor take up other major positions other than as directors.

With respect to assets, the Company's assets are completely independent and the Company has clear ownership of its assets. The Company has an independent production system, a supplementary production system and associated facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales system is independently owned by the Company.

With respect to finance, the Company has an independent financial and accounting department. It has established an independent accounting and auditing system and financial management system, and maintains an independent bank account.

With respect to business, the Company's business is completely independent from the controlling shareholder. Neither the controlling shareholder or its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder and its functional departments and the Company and its functional departments.

4. ESTABLISHMENT AND IMPLEMENTATION OF THE APPRAISAL AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT PERSONNEL

The Company has established a performance appraisal system

for senior management personnel and an incentive mechanism linking salaries with the Company's results and the individual staff member's performance. The remuneration and evaluation committee is mainly responsible for formulating and examining proposals for the management of the remuneration and performance of Directors and the President, and providing overall control and subsequent supervision of the management of the remuneration and performance of senior management personnel other than the President. The Company's President is specifically responsible for formulating and examining proposals for the management of the remuneration and performance of other senior management personnel. The Company has established an appraisal and reward office, to appraise and reward the performance of senior management personnel other than the President and work units to which they are responsible for, using a set of management and economic indicators, and with reference of the Company's annual business plans and targets.

INFORMATION ON GENERAL MEETINGS

1. INFORMATION ON ANNUAL GENERAL MEETING AND EXTRAORDINARY GENERAL MEETING

During the reporting period, the Company held four shareholders' general meetings, which are as follows:

- (1) The fourteenth meeting of the second session of Board of Directors of the Company was held on 11 December 2003. It was resolved that the 2004 first extraordinary general meeting ("EGM") be held on 15th January 2004. On 15 January 2004, the meeting was held as scheduled at the Yinhu Travel Resort in Shenzhen. 26 shareholders and their proxies attended the EGM, carrying, 428,731,284 shares in aggregate, which accounted for 64.25% of all the shares of the Company. The meeting complied with the relevant requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company, and was legally convened and held. The resolutions considered and approved at the meeting were as follows:

- (a) conclusion on the work of the second session of the Board of Directors;

- (b) change of session of the Board of Directors and election of the third session of Directors;

- (c) change of session of the Supervisory Committee and election of third session Supervisors for shareholders' representatives;

- (d) determine Director's allowances;

- (e) determine Supervisor's allowances; and

- (f) amendments to the Articles of Association of the Company.

The announcement of the resolutions of the EGM was published in China Securities Journal, the Securities Times and the Shanghai Securities News on 16 January 2004.

- (2) The fourth meeting of the third session of Board of Directors of the Company was held on 13 April 2004. It was resolved that the 2003 annual general meeting be held on 17 May 2004. On 17 May 2004, the meeting was held as scheduled at the Yinhu Travel Resort in Shenzhen. 26 shareholders and their proxies attended the annual general meeting, carrying

423,177,830 shares in aggregate, which accounted for 63.42% of all the shares of the Company. The meeting complied with the relevant requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company, and was legally convened and held. The resolutions considered and approved at the meeting are as follows:

- (a) the 2003 Report of the Board of Directors of the Company;

- (b) the 2003 Report of the Supervisory Committee of the Company;

- (c) the 2003 Report of the General Manager of the Company;

- (d) the 2003 annual report and profit distribution plan; and

- (e) the proposed signing of 2004 connected transactions framework agreements

- (3) the sixth meeting of the third session of Board of Directors of the Company was held on 28 May 2004. It was resolved that the 2004 second extraordinary

INFORMATION ON GENERAL MEETINGS

general meeting ("EGM") be held on 30 June 2004. On 30 June 2004, the meeting was held as scheduled at the Yinhu Travel Resort in Shenzhen. 68 Shareholders and their proxies attended the EGM, carrying 589,614,098 shares in aggregate, which accounted for 73.63% of all the shares of the Company. The meeting complied with the relevant requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company, and was legally convened and held. The resolutions considered and approved at the meeting are as follows:

- (a) offering and listing of H shares;
- (b) distribution and use of proceeds from the offering of H shares;
- (c) description on the status of use of proceeds from previous capital raising;
- (d) amendments to the Articles of Association of the Company;
- (e) addition of independent Director;
- (f) authorization to the Board of Directors on matters regarding the

offering and listing of H shares;

- (g) consent on the validity period for the offering and listing of H shares;
- (h) appointment of Ernst and Young as the international auditors for the offering of H shares;
- (i) consent to share pre-offering accumulated profits of the Company between new and old shareholders subsequent to the offering

- (4) The seventh meeting of the third session of Board of Directors of the Company was held on 22 July 2004. It was resolved that the third extraordinary general meeting ("EGM") be held on 2 September 2004. On 2 September 2004, the meeting was held as scheduled at the Yinhu Travel Resort in Shenzhen. 18 shareholders and their proxies attended the EGM, carrying 492,809,671 shares in aggregate, which accounted for 61.54% of all the shares of the Company. The meeting complied with the relevant requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company, and was legally convened and held.

The members of the Company resolved that its domestic auditors be changed.

2. ELECTION AND REPLACEMENT OF DIRECTORS AND SUPERVISORS IN 2004

Details of the election and replacement of the Company's Directors and Supervisors in 2004 are set out on page 35 of this annual report.

REPORT OF THE BOARD OF DIRECTORS



Yin Yimin
President

The Board of Directors is pleased to present its report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

BUSINESS OF THE GROUP

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications equipment, including wireless communications systems, wireline switch and access equipment, optical and data communications equipment, handsets, and telecommunications software systems and services.

FINANCIAL RESULTS

Please refer to page 108 of this annual report for the results of the Group for the year ended 31 December 2004 prepared in accordance with PRC GAAP and page 177 of this annual report for the results of the Group for the year ended 31 December 2004 prepared in accordance with Hong Kong accounting standards.

FINANCIAL SUMMARY

Set out on page 14 of this annual report is a summary of the results and financial position of the Group for the last three fiscal years ended 31 December 2004 prepared in accordance with the PRC GAAP.

Set out on page 16 of this annual report is a summary of the results and financial position of the Group for the last four fiscal years ended 31 December 2004 prepared in accordance with Hong Kong accounting standards, which is extracted from the accountants' report of the Group for the three fiscal years ended 31 December 2003 in the prospectus dated 29 November 2004 issued by the

Company in connection with its initial public offering of H shares and the audited financial statements of the Group for the year ended 31 December 2004 prepared in accordance with Hong Kong accounting standards.

(1) BUSINESS REVIEW

Overview of China's telecommunications industry in 2004

The overall trend in fixed assets investment in China's telecommunications industry was stable in 2004. For the year, total fixed assets investment in equipment amounted to RMB98.5 billion, representing an increase of 3% as compared to 2003. Other industry indicators showed steady growth. In particular, revenues for the telecommunications industry increased by 12.6% to RMB518.8 billion in 2004 as compared to 2003 and such growth was driven by revenues from the data communications segment. In 2004, the number of new telephone users was 115 million, resulting in a total of 647 million telephone users in the country. (The source of the above data is the Ministry of Information Industry.)

Overview of global telecommunications industry in 2004

The international telecommunications industry began to recover and grow in 2004. According to GARTNER, global revenue for the telecommunications industry amounted to US\$1,178.2 billion for 2004, representing an increase of 5.9% compared to 2003 while the global investment in telecommunications equipment amounted to US\$298.1 billion for 2004, representing an increase of 5.4% compared to 2003. New development opportunities are emerging in the global telecommunications industry.

REPORT OF THE BOARD OF DIRECTORS

Operating results in 2004

In the international market, the Group has made a breakthrough in its internationalisation strategy. By successfully taking advantage of business opportunities offered by the recovery of the global telecommunications industry, revenues from international sales increased substantially as compared to 2003. Meanwhile, a significant breakthrough was made in sales to major multinational telecommunications service providers and penetration into new markets. In the past year, we made significant improvements in internal management, brand promotion and corporate organisation, laying a good foundation for further breakthroughs in international market.

In the domestic market, competition among domestic telecommunications service providers has been intensifying with the nature of the competition based on monopolisation of resources shifting towards competition based on technology and service. In view of this and guided by customer requirements, the Group implemented a product differentiation strategy, and adopted new marketing and business models. The Group made significant improvement in balancing business development in different geographic regions.

Wireless communications products

The Group supplies CDMA, GSM and PHS systems to telecommunications service providers in both the PRC and international markets.

With respect to CDMA systems, the Group continued to maintain its market position as the third largest supplier of and the largest domestic supplier of CDMA systems in the PRC market. In addition, the Group was the one-off PRC manufacturer of CDMA equipment with the largest overseas sales.

With respect to GSM systems, the Group experienced rapid growth in international sales while sales in the domestic market also increased. In the international market, the Group continued to maintain its position as one of the leading suppliers in African countries such as Nigeria and Zambia and successfully entered the Indian market.

With respect to PHS systems, during the year, investment in PHS systems by telecommunications service providers decreased as compared to the previous year due to adjustments by telecommunications service providers in their product strategies. The Group continued to maintain its market position as one of the largest leading suppliers of PHS systems in the PRC.

Wireline switch and access products

The Group supplies circuit-switch and narrow-band access systems to telecommunications service providers in the PRC and international markets. As one of the three largest domestic suppliers in the circuit-switch and narrow-band access products market, the Group was able to further reduce costs and improve gross profit margins for its products through engaging in research and development and strengthening project management on the one hand and intensifying efforts to maintain its existing market position on the other hand. At the same time, the Group has increased efforts to develop international markets and enter new markets and has made progress in countries such as Russia and Pakistan.

REPORT OF THE BOARD OF DIRECTORS

Optical and data communications products

Data communications

The Group offers a variety of data communications equipment such as softswitch, DSL systems, routers and routing switches and wireless access data products.

With respect to DSL systems, the Company's products were mainly sold in the domestic market but were also sold in the international markets during 2004. In the PRC market, the Group continues to remain as one of the leading suppliers. Overseas markets include Russia, India, Romania and Italy. The Group also donated broadband access equipment for the Olympic Games in Athens.

Softswitch, as the core technology of next generation networks and an application protocol interface, is at present still in the initial stages of commercial deployment. In 2004, the Group's softswitch products were widely deployed for commercial trial use by China Telecom, China Netcom and China Unicom and successfully entered the international market.

Optical communications products

The Group offers various optical communications equipment, including SDH and DWDM optical communications systems. As the second largest supplier of optical network systems in China, the Group's market share steadily increased in 2004. In particular, the Group succeeded in opening up new markets in the developed coastal regions. In the international market, the Group's optical network systems gained entry into countries such as India and Romania.

Handsets

The Group offers CDMA, GSM and PHS handsets to end users of wireless services primarily through bundling its handsets with its wireless telecommunications systems and selling the package to telecommunications service providers in both the PRC and international markets. In 2004, the Company generated sales of over 10 million handsets, amid intense competition in the market, representing a substantial increase from sales of approximately 4.5 million handsets in 2003.

Miscellaneous

The Group performed favourably with respect to the production and sales of the Group's other products, including routers and routing switches, wireless access data products, telecommunications software systems and services.

(2)DISCUSSION AND ANALYSIS PREPARED UNDER PRC GAAP

The financial data below are extracted from the Group's audited financial statements for the year ended 31 December 2004 prepared in accordance with PRC GAAP. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Shenzhen Dahua Tiancheng Certified Public Accountants and the accompanying notes thereto.

REPORT OF THE BOARD OF DIRECTORS

1. Certain indicators by product segments during the reporting period as compared to the previous year:

Product category	Income from main operations (in millions RMB)	Costs of main operations (in millions RMB)	Gross profit	Increase/ Decrease in income from main operations compared with last year	Increase/ Decrease in costs of main operations compared with last year	Increase/ Decrease in gross profit compared with last year
Wireless communication systems	9,640.4	5,384.8	44.1%	29.4%	24.6%	5.1%
Wireline switch and access system	2,851.1	1,178.8	58.7%	37.6%	2.4%	32.1%
Optical and data communications systems	2,562.2	1,939.7	24.3%	15.4%	46.4%	-39.7%
Handsets	6,015.0	5,150.8	14.4%	70.7%	74.5%	-11.4%
Telecommunication software systems, services and other products	1,629.5	715.0	56.1%	111.0%	95.5%	6.6%
Total	22,698.2	14,369.1	36.7%	41.5%	42.1%	-0.6%
Of which: Connected Transactions	102.2	72.3	29.3%	39.2%	166.8%	-7.7%
Principles for price determination of connected transactions*	The prices of connected transactions between the Company and connected parties were based on market prices.					
The necessity and continuing need for connected transactions*	Sales by the Company to connected parties resulted mainly from sales of the Company's products by these connected parties acting as agents, and such transactions will continue.					

* The above-mentioned transactions refer to connected transactions under PRC laws and regulations. Please refer to note 7 to the financial statements prepared in accordance with the PRC GAAP.

REPORT OF THE BOARD OF DIRECTORS

2. Income from principal operations and profit from principal operations by geographic segments during the reporting period:

Unit: RMB million

	Income from main operations	Gross profit from main operations
The PRC	17,803.6	5,936.8
Asia (excluding the PRC)	2,631.2	1,259.7
Africa	1,618.5	768.5
Other regions	644.9	293.1
Total	22,698.2	8,258.1

3. Certain indicators for principal products accounting for 10% of income from principal operations or profit from principal operations

Products	Income from main operations (in millions RMB)	Cost of main operations (in millions RMB)	Gross profit margin
Wireless communication systems	9,640.4	5,384.8	44.1%
Wireline switch and access system	2,851.1	1,178.8	58.7%
Optical and data communications systems	2,562.2	1,939.7	24.3%
Handsets	6,015.0	5,150.8	14.4%

REPORT OF THE BOARD OF DIRECTORS

4. Business operations and results of principal subsidiaries

Business operations of the Company's principal subsidiaries

Company name	Registered capital	Percentage of equity interests (%)	Scope of business	Total assets (in millions RMB)	Net profit (in millions RMB)
ZTE Kangxun	RMB50,000,000	90	Production of electronic products and related parts (excluding restricted items)	4,280.9	170.2
ZTE Software	RMB50,000,000	90	Development, production and sale of telecommunications systems, softwares for service-based businesses and provision of related consultancy services	2,135.4	1,169.7

The Company does not hold any interest in any company in which the Company's share of the income of such company accounted for more than 10% of the net profit of the Company.

5. Major suppliers and customers

Purchases by the Group from its largest supplier were RMB1,953.9 million in 2004, accounting for 14.03% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers were RMB4,044.0 million, accounting for 29.04% of the total purchases of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders of the Company (other than Zhongxingxin) has any interest in any of the five largest suppliers of the Group. (The above figures for the Group prepared in accordance with PRC GAAP were consistent with the figures prepared in accordance with Hong Kong accounting standards.)

Under PRC GAAP, sales by the Group in 2004 to its largest customer were RMB7,101.0 million, accounting for 31.3% of the total sales of the Group for the year, while sales to its five largest customers were RMB15,163.8 million, accounting for 66.8% of the total sales of the Group for the year. Under Hong Kong accounting standards, the sales made by the Group to its largest customer were RMB6,082.5 million, accounting for 28.7% of the total sales of the Group for the year, and the sales made by the Group to its five largest customers were RMB13,705.5 million, accounting for 64.6% of the total sales of the Group for the year; none of the Directors or Supervisors or their associates or any of the shareholders of the Company has any interest in any of the five largest customers of the Group.

Note: In the 2003 annual report of the Company, the largest and the five largest customers were classified according to the entity at the provincial level under PRC practice. In 2004, in response to market changes, the largest and the five largest customers were classified by reference to telecommunications services providers on a group basis.

REPORT OF THE BOARD OF DIRECTORS

6. Investments

(1) Proceeds from the issue of additional A shares by the Company in 2001

On 13 March 2001, the Company issued 50,000,000 A shares at an issue price of RMB32.7 per share. Net proceeds from the offering (after deducting expenses from the issue) amounted to RMB1,594,479,810.63. The proceeds had, on 20 March 2001, been credited into the Company's designated account. Shenzhen Nanfang Minhe Certified Public Accounting Firm had verified the receipt of the above proceeds and issued its Capital Verification Report (Shennan (2001) YAO48).

Proceeds from the abovementioned offering were utilized by the Group as follows:

Unit: RMB10,000

Total proceeds		159,447.98	Total amount of proceeds utilized during the year		37,022.44	Total accumulated amount of proceeds utilized		159,447.98
Committed projects	Amount of proceeds proposed to be injected	Project changed	Actual amount injected	Amount of revenue generated	Progress on schedule	Whether meet expected revenue		
WCDMA 3G mobile communications construction project	48,263.00	No	48,263.00	See note	Yes	Yes		
Wire-speed router construction project	19,068.00	No	19,068.00	See note	Yes	Yes		
Broadband exchange system construction project	11,969.00	No	11,969.00	See note	Yes	Yes		
Broadband access system construction project	17,723.60	No	17,723.60	See note	Yes	Yes		
Digital TV editing and decoding system construction project	5,060.00	No	5,060.00	See note	Yes	Yes		
Optoelectronics system construction project	34,230.00	No	34,230.00	See note	Yes	Yes		
Regional smart information system technological switching project	15,498.00	No	15,498.00	See note	Yes	Yes		
Working capital	7,636.38	N/A	7,636.38	N/A	N/A	N/A		
Total	159,447.98	-	159,447.98	-	-	-		

Note: As at 30 April 2004, the above proceeds have been fully utilized. Since the services provided by the Company are total solution programs for the customers, the sale of each product is in the form of an integrated contract. As such, the revenue generated by the investments of the above proceeds are realized in the general revenue of the Company. All revenues of the above projects, except the WCDMA 3G mobile communications project, are included in the revenue of the Company's principal operations as if they had been under production and generating revenue since 2001.

REPORT OF THE BOARD OF DIRECTORS

(2) Use of proceeds from global offering of H shares

In December 2004, the Company made a global offering of 160,151,040 H shares (including H shares issued pursuant to the exercise of the over-allotment option) at an issue price of HKD22.0 per share, raising total proceeds of HKD3,523,322,880.00, equivalent to RMB3,734,722,252.80. After deduction of the underwriting fees and expenses relating to the global offering and reduction in shareholding of state-owned shares, the net proceeds of RMB3,542,177,725.94 were all credited into designated account of the Company on 9 December 2004 and 16 December 2004 respectively. Shenzhen Dahua Tiancheng Certified Public Accountants had examined and verified the net proceeds and issued a verification certificate "Shenhua (2005) Yanzi No.(003)".

The Group intends to use the aforesaid net proceeds for the following purposes:

- the Group intends to use approximately RMB2,125,306,635.56 from the abovementioned net proceeds for the expansion of the Group's overseas operations; and
- the Group intends to use approximately RMB1,416,871,090.38 from the abovementioned net proceeds for the research and development on new products and technologies of strategic importance.

REPORT OF THE BOARD OF DIRECTORS

As at the end of the reporting period, utilization of the aforesaid proceeds by the Company was as follows:

Unit: RMB10,000

Total proceeds		354,217.8	Total amount of proceeds utilized during the year			116,031.9
			Total accumulated amount of proceeds utilized			116,031.9
Committed project	Amount of proceeds proposed to be injected	Project changed	Actual amount injected	Amount of revenue generated	Progress on schedule	Whether meet expected revenue
IP switching platforms for mobile communications	24,039	No	12,567.8	See below	Yes	Yes
Integrated mobile broadband service systems	22,525	No	6315.2	See below	Yes	Yes
High speed packet mobile communications base stations	23,820	No	7739.9	See below	Yes	Yes
Intelligent wireless integrated access systems	12,890.1	No	8,341.4	See below	Yes	Yes
Core routers	20,838	No	2,942.9	See below	Yes	Yes
NGN systems	20,118	No	9,658.2	See below	Yes	Yes
Automated optical switching network systems	17,457	No	4,719.4	See below	Yes	Yes
Sub-total	141,687.1	–	52,284.8	–	–	–
Overseas operations	212,530.7	–	63,747.1	See below	Yes	Yes
Total	354,217.8	–	116,031.9	–	–	–

Note: In respect of unused proceeds, in order to improve the efficiency in the use of the proceeds, the Company intends to, subject to the progress of the projects, use any temporarily idle funds for working capital purposes to reduce demand for bank facilities and reduce financing costs. In addition, the Company will inject the funds into the relevant projects strictly in accordance with the development progress.

REPORT OF THE BOARD OF DIRECTORS

Progress and return on the projects are as follows:

- *High speed packet mobile communications base stations*

The project is a base station system in compliance with the CDMA2000 1X EVDO standard. Progress has now been made in its research and development results in phases. The project has certain commercial capabilities and participation in commercial trials in the international markets have commenced.

- *Integrated mobile broadband service systems*

The project is a platform system for 3G broadband business. At present, the Company has completed research in key technologies for the business platforms and developed initial products. As the various application systems developed under the business platform have commenced commercial use, the project may be used in 3G networks in the future.

- *Automated optical switching network systems*

The system may enhance the operating capabilities of optical networks while reducing the operating and maintenance costs of optical network, and is one of the technologies that attracts much concern from operators. At present, the Company has grasped all the core technologies for the project and is enhancing the performance based on its initial products. Meanwhile, the Company is actively participating in trials and network field tests organized by domestic operators.

- *IP switching platforms for mobile communications*

IP switching platforms for mobile communications is applicable to all 3G core networks and base station controllers. The project is also applicable to the next generation of NGN network to meet the future demand resulting from the growth in broadband multimedia communications. Research and development in the application to the 3G core network switching platforms have been completed, generating commercial capabilities for the project.

- *Core routers*

The Company is devoting considerable research and development efforts in the ZXR10 T1200 series core router, which delivers larger capacity, for smooth transition from IPV4 to the IPV6 forum. The project is expected to be applied more extensively in the construction of domestic and global IPV6 networks, particularly for large-scale use in the construction of core networks.

- *NGN systems*

The Company has completed product development using key technologies in respect of multimedia gateway and access gateway. ZTE NGN network is now actively participating in commercial trials organized by domestic and global telecommunications services providers.

- *Intelligent wireless integrated access systems*

On the basis of an integrated fixed and mobile network, intelligent wireless integrated access systems can support both sound and data applications, thus offering more diversified and personalized services for operators and end users. The Company has already completed research and development for the prototype project.

Proceeds used in overseas operations contributed to an increase in overseas income in 2004. As the products of strategic importance mentioned above have not been put into large scale commercial use by the telecommunications services providers, the Group is increasing its research and development efforts on such products with a view to generating income from the products in the future.

(3) Investments other than from the global offering:

- In January 2004, the Company invested RMB4.5 million to establish Guangdong New Pivot Technology & Service Company, Limited ("New Pivot"). New Pivot has a registered capital of RMB5 million and the Company holds a 90% stake in its shares. Its principal scope of business includes: to engage in the related businesses developed based on LINUX technologies.

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- In February 2004, the Company invested USD60,000 to establish ZTE (Malaysia) Corporation Sdn. Bhd in Malaysia, with the Company holding a 100% stake in its shares. The major scope of business of the company includes: sale of the Company's products and provision of related services in Malaysia.
- In February 2004, the Company invested RMB15.30 million to establish Shenzhen Changfei Investment Company, Limited ("Changfei"). Changfei has a registered capital of RMB30 million and the Company holds a 51% stake in its shares. Its principal scope of business includes: industrial investments and operations.
- In March 2004, the Company made a cash investment of SEK900,000 to increase the capital of Wistron AB. Following the capital increase, Wistron AB has a registered capital of SEK1 million and the Company maintains a 100% stake in its shares.
- In April 2004, the Company invested RMB5.10 million to establish Shanghai Zhongxing Telecom Equipment Technology & Science Company Limited ("Shanghai Zhongxing"). Shanghai Zhongxing has a registered capital of RMB10 million and the Company holds a 51% stake in its shares. Its principal scope of business includes: design, research, development, production, and sale of telecommunications technologies and related hardware and software products (excluding handsets) and provision of related technical consultancy services.
- In April 2004, the Company made a cash investment of RMB25 million to increase the capital of ZTE Mobile Tech Co., Limited ("ZTE Mobile"). Following the capital increase, ZTE Mobile has a registered capital of RMB33.333 million and the Company holds a 95% stake in its shares.
- In May 2004, the Company invested RMB45 million to establish Shenzhen Zhongxing Telecom Equipment Technology & Science Company Limited ("Shenzhen Zhongxing"). Shenzhen Zhongxing has a registered capital of RMB50 million and the Company holds a 90% stake in its shares. Its principal scope of business includes: design and consultation of telecommunications systems and engineering and provision of related services.
- In May 2004, the Company invested in equipment valued USD2.04 million to establish Closed Joint Stock Company TK Mobile ("TK Mobile"). TK Mobile has a registered capital of USD4 million and the Company holds a 51% stake in its shares. Its principal scope of business includes: construction and installation of mobile operations network within Tajikistan and provision of corresponding engineering and maintenance services as well as provision of communications operations services within Tajikistan.
- In May 2004, the Company proposed to make a cash investment of HKD45 million to increase the capital of ZTE (H.K.) Limited ("ZTE H.K.") and purchased all the shares held by other shareholders in ZTE H.K. in June 2004. Following the capital increase and stake transfer, ZTE H.K. has a registered capital of HKD50 million and the Company holds a 100% stake in its shares.
- In May 2004, the Company made a cash investment of RMB17.25 million to increase the capital of ZTE Integration Telecom Ltd. ("ZTE Integration"). Following the capital increase, ZTE Integration has a registered capital of RMB55 million and the Company maintains a 75% stake in its shares.

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- In July 2004, the Company invested USD122,500 to establish Kaznurtel Limited Liability Company ("ZTE Kaznurtel"). ZTE Kaznurtel has a registered capital of USD3 million and the Company holds a 49% stake in its shares. The remaining contribution will be made within one year from the establishment of the company. Its principal scope of business includes: production and sale of telecommunications equipment and provision of corresponding technical support, engineering and after-sale services within Kazakhstan.
- In July 2004, the Company invested RMB32 million to establish China Topssion Communication Co., Ltd. ("China Topssion"). China Topssion has a registered capital of RMB200 million and the Company holds a 16% stake in its shares. Its principal scope of business includes: principally engaged in sale and maintenance of mobile terminals and also involved in agency services for telecommunications businesses, providing value-added services, production and research and development of mobile terminals.
- In November 2004, the Company invested USD100,000 to establish ZTE Romania SRL ("ZTE Romania"). ZTE Romania has a registered capital of USD100,000 and the Company holds a 100% stake in its shares. Its principal scope of business includes: provision of agency services for and sale and marketing of the Company's products and provision of corresponding engineering, after-sale services and technical support within Romania.
- In November 2004, the Company invested USD2,500,000 to establish Zimax (Cayman) Co., Ltd. The company has a registered capital of USD2,500,000 and the Company holds a 100% stake in its shares. Its principal scope of business includes: to invest in research and development projects on all kinds of telecommunications products.

7. Description of financial condition of the Group

Unit: RMB million

Item	2004	2003	Increase/ decrease
Total assets	20,850.0	15,833.4	31.7%
Shareholders' equity (excluding minority interests)	9,174.4	4,810.4	90.7%
Long-term liabilities	1,252.6	883.4	41.8%
Profit from principal operations	8,258.1	5,714.2	44.5%
Net profit	1,008.9	704.1	43.3%
Cash and cash equivalents	7,598.2	3,785.0	100.7%

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Reasons for changes in financial status:

- (1) The increase in total assets was mainly due to expansion in the Company's scale of operations in production and proceeds raised from the H share issue;
- (2) The increase in shareholders' funds was mainly due to the proceeds raised from the H share issue by the Company, expansion in the scale of operations in production and increase in net profit;
- (3) The increase in long-term liabilities was mainly due to new borrowings;
- (4) The increase in profit from principal operations was mainly due to expansion in the scale of sales of the Company;
- (5) The increase in net profit of the Company was mainly due to expansion in the scale of operations of the Company; and
- (6) The increase in cash and cash equivalents of the Company was mainly due to the favourable condition of the collection of sales receivables of the Company and the proceeds raised from the H share issue.

For details of the changes in the accounting policies and accounting estimates and rectification of accounting errors of the Group for the year ended 31 December 2004, please refer to note 3 to the financial statements prepared under the PRC GAAP.

8. Special Notice on the Use of Funds of Listed Companies by the Controlling Shareholder and other Connected Persons issued by Shenzhen Dahua Tiancheng Certified Public Accountants. The Special Notice referred to above is set out on page 243 of this annual report.

9. The independent opinion of the independent Directors on the Company's accumulated and current external guarantees for 2004 was as follows:

- (1) Transfer of funds between the Company and the controlling shareholder and other connected parties represent normal acts of sales and purchases of goods. Such transactions have always been conducted on fair market prices and no act to the detriment of the Company's interests has existed. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have committed any acts of using the Company's funds.
- (2) In order to implement a standardized management for external guarantees, the Company has formulated Administrative Measures on External Guarantees and set out provisions in the Articles of Association for the examination and approval procedures and credit qualifications of the guaranteed party in relation to external guarantees. Details of guarantees disclosed in the 2004 annual report are true and the Company has not committed any unlawful acts of guarantees or connected guarantees.
- (3) As required by China Securities Regulatory Commission, independent Directors of the Company have seriously considered the Notice of Regulating Several Issues of Funds Uses with Connected Persons and External Guarantees of Listed Companies and consider that the Company has been in strict compliance with the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.

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10. Meetings of the Board of Directors

During the reporting period, the Board of Directors convened eleven meetings, details of which are as follows:

1. The first meeting of the third session of the Board of Directors was held at its office on 15 January 2004. 15 directors should have attended the meeting and 14 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:
 - The proposal in relation to the election of chairman and vice chairman of the third session of the Board of Directors was considered and passed
 - The proposal in relation to the election of the respective specialist committee member of the third session of the Board of Directors was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 16 January 2004.

2. The second meeting of the third session of the Board of Directors was held at its office on 15 January 2004. 15 directors should have attended the meeting and 14 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:
 - The proposal in relation to the appointment of new senior management personnel of the Company was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 16 January 2004.

3. The third meeting of the third session of the Board of Directors was held at its office on 7 April 2004. 15 directors should have attended the meeting and 11 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The full text of the annual report of the Company together with its summary for 2003 was considered and passed
- The report of the Board of Directors for 2003 was considered and passed
- The report of the general manager for 2003 was considered and passed
- The financial report and profit distribution plan of the Company for 2003 was considered and passed
- The proposal in relation to connected transactions framework agreement proposed to be entered into by the Company was considered and passed
- The proposal in relation to organisational and structural adjustments of the Company was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 10 April 2004.

4. The fourth meeting of the third session of the Board of Directors was held by way of written resolutions on 13 April 2004. 15 directors should vote at the meeting and all of them voted. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

REPORT OF THE BOARD OF DIRECTORS

The proposal in relation to the convening of the 2003 Annual General Meeting was considered and passed

The notice of the Annual General Meeting was published in China Securities Journal, Securities Times and Shanghai Securities News on 14 April 2004.

5. The fifth meeting of the third session of the Board of Directors was held by way of video conference at its headquarter, and in Beijing, Shanghai, Xi'an, Nanjing, etc. on 21 April 2004. 15 directors should have attended the meeting and 10 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The first quarterly report of the Company for 2004 was considered and passed

The quarterly report was published in China Securities Journal, Securities Times and Shanghai Securities News on 22 April 2004.

6. The sixth meeting of the third session of the Board of Directors was held at its office on 28 May 2004. 15 directors should have attended the meeting and 12 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The proposal in relation to the issue and listing of H share was considered and passed
- The proposal in relation to the investment of and use of proceeds under the H share issue was considered and passed
- The proposal in relation to the submission of application to regulatory authority governing domestic listing issues for the issue and listing of H shares was considered and passed

- The proposal in relation to an explanation on the use of proceeds previously raised was considered and passed
- The proposal in relation to amendments made to the Articles of Association was considered and passed
- The proposal in relation to the appointment of additional independent director was considered and passed
- The proposal in relation to the submission to the shareholders' general meeting for the granting of a mandate to the Board of Directors with respect to the issue and listing of H shares was considered and passed
- The proposal in relation to the submission to the Board of Directors for the granting of a mandate to relevant parties with respect to the issue and listing of H shares was considered and passed
- The proposal in relation to the submission to the shareholders' general meeting for granting consent as to the valid period in respect of the issue and listing of H shares was considered and passed
- The proposal in relation to the engagement of Ernst & Young to act as international auditors of the Company for the H share issue was considered and passed
- The proposal in relation to the submission to the shareholders' general meeting for consent to share the pre-offering accumulated profits between the new and old shareholders upon completion of the issue was considered and passed
- The proposal in relation to the convening of the second extraordinary general meeting for 2004 was considered and passed

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The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 29 May 2004.

7. The seventh meeting of the third session of the Board of Directors was held by way of written resolutions on 22 July 2004. 16 directors should vote at the meeting and all of them voted. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The proposal in relation to changes in the accounting policies on income tax for A shares, the valuation method for assets impairment was considered and passed
- The proposal in relation to the re-appointment of the domestic auditors of the Company was considered and passed
- The proposal in relation to the convening of the third extraordinary general meeting for 2004 was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 24 July 2004.

8. The eighth meeting of the third session of the Board of Directors was held at its office on 27 August 2004. 16 directors should have attended the meeting and 13 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:
- The full text of the 2004 interim report of ZTE Corporation together with its summary was considered and passed
 - The report of the general manager of ZTE Corporation for the first half of 2004 was considered and passed

- The financial analysis report of ZTE Corporation for the first half of 2004 was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 31 August 2004.

9. The ninth meeting of the third session of the Board of Directors was held by way of video conference at its headquarters, and in locations including Beijing, Shanghai, Nanjing, Changsha on 28 October 2004. 16 directors should have attended the meeting and all of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The third quarterly report of the Company for 2004 was considered and passed

The quarterly report was published in China Securities Journal, Securities Times and Shanghai Securities News on 30 October 2004.

10. The tenth meeting of the third session of the Board of Directors was held at its office on 19 November 2004. 16 directors should have attended the meeting and 13 of them were present. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The proposal in relation to the resignation of Mr. Tan Shanyi as Director of the Company was considered and passed
- The proposal in relation to the retrospective adjustments made to certain items on the income statements in the 2003 interim report and third quarterly report was considered and passed

The announcement of resolutions of the Board of Directors was published in China Securities Journal, Securities Times and Shanghai Securities News on 24 November 2004.

REPORT OF THE BOARD OF DIRECTORS

11. The eleventh meeting of the third session of the Board of Directors was held by way of written resolutions on 28 December 2004. 16 directors should vote at the meeting and all of them voted. The proceedings of the meeting were legal and valid, and the following resolutions were considered and passed at the meeting:

- The internal control system of the Company was considered and passed

11. 2004 profit distribution plan

The audited net profit of the Company for the year 2004 amounted to RMB1,162,283,000 as calculated in accordance with the PRC GAAP. The distributable profit amounted to RMB2,922,149,000 after adding the undistributed profit of RMB2,067,667,000 at the beginning of the year, and transferring 10% to the statutory surplus reserve amounting to RMB116,228,000, and 5% to the statutory public welfare fund amounting to RMB58,114,000 and deducting the capitalisation of ordinary share dividends amounting to RMB133,459,000.

The audited net profit of the Company for the year 2004 amounted to RMB150,233,000 as calculated in accordance with the Hong Kong accounting standards. The distributable profit amounted to RMB469,710,000 after adding the distributed profit of RMB627,278,000 at the beginning of the year, and deducting the transfers to the statutory surplus reserve and statutory public welfare totaling RMB174,342,000 and the capitalization of ordinary share dividends amounting to RMB133,459,000.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association of the Company, the distributable profits shall be the lower of the distributable profits as calculated in accordance with PRC GAAP and Hong Kong accounting standards, being RMB469,710,000.

The Board of Directors recommended the profit distribution of the Company for the year 2004 as: payment of RMB2.5 (inclusive of PRC individual income tax) in cash for every 10 shares on the basis of the total share capital of 959,521,650 Shares as at 31 December 2004, totaling RMB239,880,000.

3. OTHER INFORMATION

1. Fixed assets

Details of changes in the fixed assets of the Company and the Group for the year are set out in note 15 to the financial statements prepared in accordance with Hong Kong accounting standards.

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in note 29 to the financial statements prepared in accordance with Hong Kong accounting standards.

3. Reserves

Details of the reserves and changes in the reserves of the Company and the Group for the year are set out in note 35 to the financial statements prepared in accordance with the Hong Kong accounting standards.

4. Pre-emptive rights

There is no provision under the Company Law of the People's Republic of China regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders.

5. Purchase, sale or redemption of shares

Save for the H shares issued under the global offering, during the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

REPORT OF THE BOARD OF DIRECTORS

6. Share capital

Details of the share capital of the Company during the year, together with the changes in the share capital and the reasons therefor, are set out in note 34 to the financial statements prepared in accordance with the Hong Kong accounting standards and page 21 in this annual report.

7. Retirement benefits

Details of the retirement benefits provided by the Group are set out in note 30 to the

financial statements prepared in accordance with Hong Kong accounting standards.

8. Interests of substantial shareholders and other parties in shares and debentures

As at 31 December 2004, the following shareholders held an interest of 5% or more in the Company's issued share capital as shown in the register maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance in Hong Kong:

Name	Number of shares held	Approximate Shareholding (%)
Zhongxingxin	423,221,760	44.1
Zhongxing WXT ⁽¹⁾	423,221,760	44.1
Xi'an Microelectronics ⁽²⁾	423,221,760	44.1
China Aerospace Times Electronics Corporation ⁽³⁾	423,221,760	44.1
China Aerospace Science and Technology Corporation ⁽⁴⁾	423,221,760	44.1

Notes:

(1) Zhongxing WXT directly owns a 49.0% equity interest in Zhongxingxin and which directly owns 423,221,760 shares, representing approximately 44.1% of the issued share capital of the Company. Therefore, the above 423,221,760 shares attributable to Zhongxing WXT represent its indirect deemed interest in the issued shares of the Company via its equity interest in Zhongxingxin.

(2) Xi'an Microelectronics directly owns a 34.0% equity interest in Zhongxingxin which directly owns 423,221,760 shares, representing approximately 44.1% of the issued share capital of the Company. Therefore, the above 423,221,760 shares attributable to Xi'an Microelectronics represent its indirect deemed interest in the issued share capital of the Company via its equity interest in Zhongxingxin.

(3) China Aerospace Times Electronics Corporation directly owns the entire share capital of Xi'an Microelectronics. Therefore, the above 423,221,760 shares attributable to China Aerospace Times Electronics Corporation represent its indirect deemed interest in the issued shares of the Company via its equity interest in Xi'an Microelectronics and the latter's equity interest in Zhongxingxin.

(4) China Aerospace Science and Technology Corporation directly owns the entire share capital of China Aerospace Times Electronics Corporation. Therefore, the above 423,221,760 shares attributable to China Aerospace Science and Technology Corporation represent its indirect deemed interest in the issued share capital of the Company via its equity interest in China Aerospace Times Electronics Corporation, China Aerospace

REPORT OF THE BOARD OF DIRECTORS

Times Electronics Corporation's equity interest in Xi'an Microelectronics and Xi'an Microelectronics' equity interest in Zhongxingxin.

Save as disclosed above, as at 31 December 2004, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the Securities and Futures Ordinance.

9. Connected transactions

Details of connected transactions of the Company during the year are set out on pages 78 to 84 of the annual report.

10. Audit committee

The Company has established an audit committee. The audit committee comprises seven members, all of whom are non-executive directors, including four independent non-executive Directors. The audit committee has reviewed with the management the accounting principles and standards adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited financial statements for the year ended 31 December 2004.

11. Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that that Company was not, for the period from the date of listing of the H shares of the Company on the Hong Kong Stock Exchange to 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules.

12. The Model Code on Securities Transactions by Directors of Listed Issuers

The Directors of the Company confirm that the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules. After making specific enquiry with the Directors and Supervisors of the Company, the Company is not aware of any situation that would reasonably indicate that the Directors and Supervisors of the Company was not in compliance with the requirements of the Model Code throughout 2004.

13. Proposed amendments to the Articles of Association

The Company proposes to make amendments to its Articles of Association, in compliance with certain laws and regulations in the PRC and Hong Kong, including the following:

- Certain Regulations on Strengthening the Protection of Public Shareholders' Interests; and
- Working Guidelines (Provisional) Relating to Online Voting for Shareholders' General Meetings of Listed Companies.

The proposed amendments include the following:

1. Duty of good faith of controlling shareholder

Article 60 of the amended Articles of Association imposes a duty of good faith on the controlling shareholder and persons who exercise effective control over the Company, and prohibits these persons from exercising their powers adversely to the interests of the Company and its public shareholders.

REPORT OF THE BOARD OF DIRECTORS

2. Announcement obligations

Article 67 of the amended Articles of Association deals with the announcement obligations of the Company where matters under Article 106 are proposed to be considered at the shareholders' general meetings.

3. Amendment of wording

The wording in Articles 21, 72 and 73 of the amended Articles of Association relating to central depository, recognised clearing house and proxy is proposed to be amended as requested by the Hong Kong Securities Clearing Company Limited.

4. Online voting

Articles 88, 100 and 101 of the amended Articles of Association sets out details relating to online voting with respect to shareholders' general meetings, including the deadline for putting forward a motion before the shareholders' general meeting matters for which online voting should be made available, and the period within which online voting may take place.

5. Communications with and voting by public shareholders

Article 61 of the amended Articles of Association provides for the establishment of an adequate system for managing investor relations, in particular, to improve communications with public shareholders.

Article 66 of the amended Articles of Association provides that the Company shall encourage greater participation of public shareholders in shareholders' general meetings through various channels, including the use of online voting.

Article 94 of the amended Articles of Association provides that for matters considered by the shareholders' general meeting under Article 106, abstained votes and notes not cast shall be deemed to be included in the total number of votes cast.

Article 106, 114 and 115 of the amended Articles of Association list the matters that must be passed by more than one-half of the public shareholders voting at the shareholders' general meeting (including any proposed issue of capital to public shareholders, material asset acquisition or reorganisation, proposed listing of material subsidiaries of the Company and other matters having a material effect on the interests of public shareholders), the announcement of voting results for such matters and the information to be disclosed relating to public shareholders in the announcement.

6. Number of Directors and Supervisors

The requirement to obtain approval by the shareholders' general meeting where a Director resigns from his position prior to expiration of his term of office is removed in Article 130 of the amended Articles of Association.

Article 134 of the amended Articles of Association provides that at least one-third of the Board of Directors shall be composed of independent directors, at least one of whom shall be of an accounting background.

The number of Directors and Supervisors in Articles 142, 173 and 174 of the amended Articles of Association are updated to reflect the resignations and appointments of Directors and Supervisors, which will be effective upon adoption of shareholders' resolution at the 2004 Annual General Meeting. Article 183 provides that a Supervisor intending to resign from the Supervisory Committee shall produce a resignation report to the Supervisory Committee.

REPORT OF THE BOARD OF DIRECTORS

7. Duties of independent Directors

Article 137 of the amended Articles of Association provides that an independent Director shall not be removed without an appropriate reason and any such removal must be disclosed as a special matter. Article 138 provides that independent Directors shall be independent from substantial shareholders of the Company or persons who exercise effective control over the Company, and Article 139 obligates independent Directors to express an opinion where the Board of Directors does not provide a profit appropriation plan. Articles 140 and 141 obligate independent Directors to attend Board meetings, have an understanding of the operations of the Company and to submit their report to the shareholder's general meeting.

The resolutions regarding the above amendments and certain other amendments will be put forward to the shareholders for approval by way of special resolution at the 2004 Annual General Meeting. For details of the resolutions regarding the proposed amendments, please refer to the notice of annual general meeting published in the China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times on 11 April 2005.

8. Provision of guarantees

Article 143 of the amended Articles of Association provides that the maximum amount of any single guarantee provided by the Company in favour of third parties shall not be more than 5% of the net asset value recorded on the consolidated financial statements for the most recent financial year; the maximum accumulated amount of guarantees provided by the Company to any one party shall not be more than 10% of the net asset value recorded on the consolidated financial statements for the most recent financial year.

9. Profit distribution

Article 222 of the amended Articles of Association provides that where a shareholder misappropriates cash from the Company, the Company shall reduce any profits distributed to the shareholder to repay the loss.

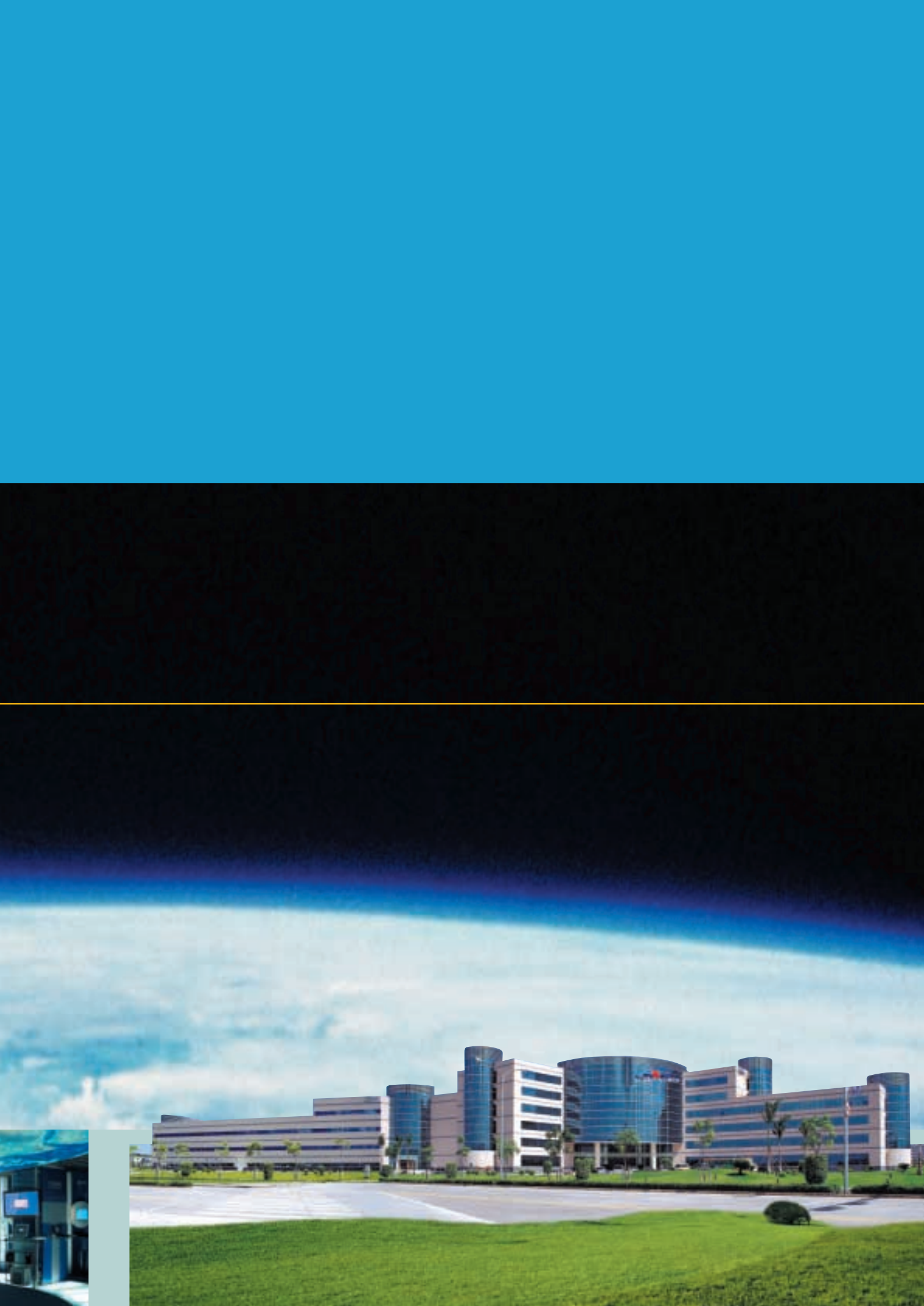
BREAKTHROUGH DEVELOPMENT FROM INTERNATIONAL STRATEGY

In 2004, the Group seized the opportunities from the recovery of the global telecommunications industry. Sales from the international market have significantly improved compared with the previous year. At the same time, the Group has made a significant breakthrough as a substantial cross-border telecommunications service provider and in developing new markets.



In December 2004, we were listed on the main board of Hong Kong Stock Exchange. The listing was in line with our globalization strategy and provides a better financial platform to the Group. We will also build a quality enterprise that is more transparent and responsible to shareholders in accordance with the demands of the international capital markets.





MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

The financial data below are extracted from the Group's audited financial statements prepared in accordance with Hong Kong accounting standards. 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: in millions RMB

	2004	2003
Turnover		
Wireless communications	8,786.4	7,783.3
Wireline switch and access	2,598.6	2,257.9
Optical and data communications	2,335.3	2,211.0
Handsets	6,014.9	3,626.7
Telecommunications software systems, services and other products	1,484.9	1,157.2
Sub-total	21,220.1	17,036.1
Cost of sales	(13,813.5)	(11,226.1)
Gross profit	7,406.6	5,810.0
Other revenue and gains	534.1	252.0
Research and development costs	(2,265.2)	(1,535.7)
Selling and distribution costs	(2,799.6)	(1,981.5)
Administrative expenses	(981.4)	(869.0)
Other operating expenses	(162.4)	(213.9)
Profit from operating activities	1,732.1	1,461.9
Finance costs	(140.4)	(171.2)
Share of profits and losses of jointly-controlled entities and associates	3.4	(3.5)
Profit before tax	1,595.1	1,287.2
Tax	(115.3)	(198.6)
Profit before minority interests	1,479.8	1,088.6
Minority interests	(207.3)	(60.3)
Net profit from ordinary activities attributable to shareholders	1,272.5	1,028.3
Dividends	239.9	200.2
Earnings per share – basic	RMB1.57	RMB1.28

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Turnover

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

Unit: in millions RMB

Product category	2004		2003	
	Revenue	Percentage of turnover	Revenue	Percentage of turnover
Wireless communications	8,786.4	41.4%	7,783.3	45.7%
Wireline switch and access	2,598.6	12.2%	2,257.9	13.2%
Optical and data communications	2,335.3	11.0%	2,211.0	13.0%
Handsets	6,014.9	28.4%	3,626.7	21.3%
Telecommunications software systems, services and other products	1,484.9	7.0%	1,157.2	6.8%
Total	21,220.1	100.0%	17,036.1	100.0%

The following table sets out the Group's revenue generated from sales in the PRC, Asia (excluding the PRC), Africa and other regions and the corresponding percentage of total turnover for the periods indicated:

Unit: in millions RMB

Region	2004		2003	
	Revenue	Percentage of turnover	Revenue	Percentage of turnover
The PRC	16,644.5	78.5%	15,076.4	88.5%
Asia (excluding the PRC)	2,459.9	11.6%	1,049.3	6.1%
Africa	1,513.1	7.1%	829.3	4.9%
Other regions	602.6	2.8%	81.1	0.5%
Total	21,220.1	100.0%	17,036.1	100.0%

The Group's turnover increased by 24.6% from RMB17,036.1 million in 2003 to RMB21,220.1 million in 2004, primarily due to revenue growth in the handsets and wireless communications segments. Revenue from sales in the PRC increased by 10.4% from RMB15,076.4 million in 2003 to RMB16,644.5 million in 2004. Revenue from international sales increased by 133.5% from RMB1,959.7 million in 2003 to RMB4,575.6 million in 2004.

Revenue in the Group's wireless communications segment increased by 12.9% from RMB7,783.3 million in 2003 to 8,786.4 million in 2004, primarily due to increased international sales of CDMA and GSM systems and also due to increased sales of CDMA systems to China Unicom and increased sales of GSM systems to China Mobile and China Unicom. Such increased sales were partly offset by a slight decrease in the Group's revenue from sales of PHS systems.

Revenue in the Group's wireline switch and access segment increased by 15.1% from RMB2,257.9 million in 2003 to RMB2,598.6 million in 2004. This increase was primarily due to increased domestic sales of wireline switch and access equipment. Sales of wireline switch and access equipment in the international market also increased slightly.

Revenue in the Group's optical and data communications segment increased by 5.6% from RMB2,211.0 million in 2003 to RMB2,335.3 million in 2004. This increase was primarily attributable to increased sales of ADSL products and of certain optical transmission products, partially offset by a decline in sales of routers and other products. The growth in sales of ADSL products was due primarily to increased investment in broadband networks by major telecommunications services providers in China.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Revenue in the Group's handsets segment increased by 65.9% from RMB3,626.7 million in 2003 to RMB6,014.9 million in 2004, primarily due to an increase in volume, which was partially offset by a decrease in average sales prices. In 2003, the Group sold approximately 4.5 million handsets while in 2004 sales rose to approximately 10 million handsets. Such growth principally resulted from the Group's expansion of marketing activities.

Revenue in the Group's telecommunications software systems, services and other products segment increased by 28.3% from RMB1,157.2 million in 2003 to RMB1,484.9 million in 2004, primarily due to an increase in services revenue.

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 turnover and (2) the Group's gross profit and gross profit margin for the periods indicated:

Unit: in millions RMB

Product category	2004		2003	
	Costs of sales	Percentage of product segment revenue	Costs of sales	Percentage of product segment revenue
Wireless communications	4,973.2	56.6%	5,424.8	69.7%
Wireline switch and access	1,105.6	42.5%	966.8	42.8%
Optical and data communications	1,768.6	75.7%	1,393.3	63.0%
Handsets	5,286.2	87.9%	2,970.9	81.9%
Telecommunications software systems, services and other products	679.9	45.8%	470.3	40.6%
Total	13,813.5	65.1%	11,226.1	65.9%

Unit: in millions RMB

Product category	2004		2003	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Wireless communications	3,813.2	43.4%	2,358.6	30.3%
Wireline switch and access	1,493.0	57.5%	1,291.1	57.2%
Optical and data communications	566.7	24.3%	817.7	37.0%
Handsets	728.7	12.1%	655.8	18.1%
Telecommunications software system, services and other products	805.0	54.2%	686.8	59.4%
Total	7,406.6	34.9%	5,810.0	34.1%

The Group's gross profit increased 27.5% from RMB5,810.0 million in 2003 to RMB7,406.6 million in 2004, primarily due to the growth in the Group's turnover. The Group's gross profit margin increased slightly from 34.1% in 2003 to 34.9% in 2004. This increase resulted primarily from an

increased gross profit margin for the wireless communications segment, which was largely offset by decreased gross profit margins for the handsets and optical and data communications segments.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Gross profit margin in the Group's wireless communications segment increased from 30.3% in 2003 to 43.4% in 2004, due to increased gross profit margins from sales of PHS, GSM and CDMA systems. Gross profit margin for PHS systems was lower in previous years due to intense competition for market share. As the market has matured and competition has eased, gross profit margin for PHS systems has increased accordingly. Gross profit margin for CDMA systems increased as a result of the combined effect of lower unit costs of sales and increased international sales. Gross profit margin for GSM systems increased as a result of the higher contribution from international sales, on which profit margins are also generally higher.

Gross profit margin in the Group's wireline switch and access segment remained largely unchanged in 2004 at approximately 57.0% as an improvement in gross profit margin for the Group's circuit-switch products was offset by a larger decrease in gross profit margin for its narrow-band access systems.

Gross profit margin in the Group's optical and data communications segment decreased from 37.0% in 2003 to 24.3% in 2004, primarily due to a decline in gross profit margins from domestic sales of the Group's ADSL products.

Gross profit margin in the Group's handset segment decreased from 18.1% in 2003 to 12.1% in 2004 due to decreased gross profit margins for PHS and GSM handsets, partially offset by increased gross profit margin for CDMA handsets. Gross profit margins for PHS and GSM handsets declined as a result of lower unit prices in 2004 as compared to 2003 due to intense competition. This decline in gross profit margin principally took place in the second half of the year due in part to additional provisions for handset inventory obsolescence. Gross profit margin for CDMA handsets increased due to an improvement in gross profit margin from domestic sales and also due to increased international sales. In addition, we ceased sales of CDMA handsets purchased from third party suppliers, which relieved the pressure on pricing.

Gross profit margin in the Group's telecommunications software systems, services and other products segment decreased from 59.4% in 2003 to 54.2% in 2004, primarily due to a decrease in profit margins for certain other products, which was partially offset by an increase in gross profit margin for software systems.

Other revenue and gains

The other revenue and gains of the Group increased by 111.9% from RMB252.0 million in 2003 to RMB534.1 million in 2004. This increase is primarily attributable to value-added tax rebates received by Shenzhen ZTE Software Company, Limited ("ZTE Software") (which began operations in September 2003) and, to a significantly lesser extent, gains on disposal of short-term investments by ZTE (H.K.) Limited in 2004.

Research and development costs

The Group's research and development costs increased by 47.5% from RMB1,535.7 million in 2003 to RMB2,265.2 million in 2004. This increase was primarily due to the Group's expansion and an increase in the number of research and development employees and associated costs. The Group's research and development headcount increased from 6,321 as of 31 December 2003 to 8,287 as of 31 December 2004. The additional employees are mainly engaged in the research and development of 3G mobile communications, handsets and data communications products.

Selling and distribution costs

The Group's selling and distribution costs increased by 41.3% from RMB1,981.5 million in 2003 to RMB2,799.6 million in 2004, primarily as a result of increases in staff and welfare expenses, sales commissions and entertainment expenses which resulted generally from the Group's expanded operations, particularly overseas. Staff and welfare expenses increased primarily due to an increase in the number of sales and marketing employees from 4,717 as of 31 December 2003 to 7,973 as of 31 December 2004. Sales commissions increased due to the increase in international sales, a portion of which is undertaken through sales agents who are paid commissions. Entertainment expenses also increased significantly because of the expansion of international sales.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Administrative expenses

The Group's administrative expenses increased by 12.9% from RMB869.0 million in 2003 to RMB981.4 million in 2004, primarily due to increased salaries, welfare benefits and social security insurance, which were in turn principally due to the increase in the number of administrative employees from 1,684 as of 31 December 2003 to 3,246 as of 31 December 2004.

Other operating expenses

The Group's other operating expenses decreased by 24.1% from RMB213.9 million in 2003 to RMB162.4 million in 2004, primarily due to a decrease in the provision for bad and doubtful debts and a decrease in losses on disposal of fixed assets. The decrease in the provision for bad and doubtful debts was due to the Group's recovery of some of the aged receivables for which provisions had been made although the ageing of trade and bills receivables generally increased in 2004. However, the decrease in provision was partially offset by an increase in foreign exchange losses and losses on the transfer of intangible assets.

Profit from operating activities

The Group's profit from operating activities increased by 18.5% from RMB1,461.9 million in 2003 to RMB1,732.1 million in 2004, while the profit margin from operating activities decreased from 8.6% in 2003 to 8.2% in 2004. This decrease in operating profit margin was mainly caused by the increase in selling and distribution costs and research and development costs as a percentage of turnover, which was largely offset by the slight increase in gross profit margin.

Finance costs

The Group's finance costs decreased by 18.0% from RMB171.2 million in 2003 to RMB140.4 million in 2004, primarily due to the repayment of bank loans and the consequent reduction in interest expenses.

Tax

The Group's tax expenses decreased by 41.9%, from RMB198.6 million to RMB115.3 million in 2004 and its effective tax rate decreased from 15.4% in 2003 to 7.2% in 2004, primarily due to an increase in the proportion of profit before tax contributed by subsidiaries that enjoy a lower tax rate or other tax benefits.

Minority interests

The Group's minority interests increased by 243.8% from RMB60.3 million in 2003 to RMB207.3 million in 2004, primarily due to the rapid growth in the net profit of ZTE Software, which began operations in September 2003. Minority interests as a percentage of profit before minority interests increased from 5.5% in 2003 to 14.0% in 2004.

Liquidity and capital resources

In 2004, the Group mainly funded its growth from cash generated from its operations and bank loans. The Group's cash requirements relate primarily to production and operating activities, repayment of liabilities as they become due, capital expenditure, interest and dividend payments and unexpected cash requirements.

The cash and cash equivalents as of 31 December 2004 were RMB7,509.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Cash flow data

Unit: in millions RMB

	2004	2003
Net cash inflow from operating activities	1,240.0	682.5
Net cash outflow from investing activities	(620.6)	(448.4)
Net cash inflow from financing activities	3,314.2	554.0
Net increase in cash and cash equivalents	3,933.6	788.1

Operating activities

The Group had a net cash inflow from operating activities of RMB1,240.0 million in 2004 compared to RMB682.5 million in 2003, primarily because of a decrease of RMB901.0 million in amounts due from customers for contract work, an increase of 22% in operating profit before working capital changes from RMB1,978.7 million in 2003 to RMB2,413.8 million in 2004 and an increase in other payables and accruals, which were partially offset by an increase in trade and bills receivables, an increase in inventories and a decrease in amounts due to customers for contract work. Amounts due from customers for contract work decreased in 2004 because the seasonal effects of telecommunications systems contracts decreased in 2004 with more contracts being completed over the year compared to the number of contracts in progress. Amounts due to customers for contract work decreased because advance payments received by the Group for telecommunications systems contracts declined. Trade and bills receivables and inventories generally increased in line with the increase in the Group's sales. In 2004, the Group's receivables turnover was 3.8 compared to 4.0 in 2003, the Group's inventory turnover was 9.1 compared to 9.4 in 2003 and the Group's payables turnover was 3.1 compared to 2.9 in 2003.

Investment activities

The net cash outflow from the Group's investment activities in 2004 was RMB620.6 million as compared to RMB448.4 million in 2003. This cash was mainly used in the expansion of the Group's operations and scale of production, of which RMB497.9 million was applied in the acquisition of equipment and facilities, testing apparatus, computers and additional office equipment, and RMB58.2 million was applied to the construction of the Group's Shenzhen research and development center.

Financing activities

In 2004, the Group's net cash inflow from financing activities amounted to RMB3,314.2 million, which was generated from the receipt of proceeds of the global offering of H shares completed in December 2004, partially offset by a net reduction in loans.

Capital expenditure

The following table sets out the Group's capital expenditure for the periods indicated. The following capital expenditure was funded out of the proceeds of the Company's initial and subsequent offerings of A shares, long-term bank loans, cash generated from operating activities and government grants.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Unit: in millions RMB

Capital expenditure	2004	2003
Purchases of fixed assets and additions to construction in progress	647.0	500.0

The Group's capital expenditures in 2004 exceeded the estimated amount of RMB400.0 million in capital expenditures disclosed in the prospectus for its H share offering. This was due to the Group proceeding with certain capital expenditure projects which were not originally intended to be implemented in 2004. The Group decided to proceed with these projects on the basis of the smooth progress of the H share offering process and the expected proceeds therefrom.

For the year ending 31 December 2005, the Group expects to incur approximately RMB900 million in capital expenditures relating primarily to the completion of construction of the Company's research and development center in Shenzhen and

the acquisition of other equipment and facilities. The actual amounts spent may vary from the budgeted amounts of capital expenditure for a variety of reasons, including changes in market conditions and other factors.

There is no guarantee that any of the planned capital expenditures outlined above will proceed as planned. As the Group continues to expand, it may incur additional capital expenditures. In the future, the Group may consider additional debt or equity financing, depending on market conditions, the Group's financial performance and other relevant factors. The Group can provide no assurance that it will be able to raise additional capital, should that become necessary, on terms acceptable to the Group or at all.

Indebtedness

Unit: in millions RMB

	As at 31 December	
	2004	2003
Secured bank loans	361.6	404.9
Unsecured bank loans	1,085.4	1,332.0

Unit: in millions RMB

	As at 31 December	
	2004	2003
Short-term bank loans	421.7	977.9
Long-term bank loans	1,025.3	759.0

The banking facilities available to the Group comprise long-term and short-term loans from banks. Long-term loans are principally applied by the Group for capital expenditure projects. Short-term loans are principally applied by the Group for working capital purposes. The Group's long-term loans bear interest

at fixed rates. The Group's borrowings are denominated principally in Renminbi and also in US dollars.

In 2004, the Group's bank loans have decreased, primarily due to the increase in sales receipts and increase in available cash balances.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Contractual obligations

Unit: in millions RMB

	As at 31 December 2004			
	Total	Less than one year	Two to five years	More than five years
Bank loans	1,447.0	421.7	1,025.3	–
Operating lease obligations	149.3	74.4	67.5	7.4

Contingent Liabilities

Unit: in millions RMB

	2004	2003
Bills discounted with recourse	440.9	975.2
Trade debtors factored with recourse	691.7	–
Guarantees given to banks in connection with facilities granted to third parties	–	12.8
Guarantees given to banks in respect of performance bonds	1,626.1	1,114.3
Total	2,758.7	2,102.3

Capital Commitments

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

Unit: in millions RMB

Land and buildings	As at 31 December	
	2004	2003
Contracted, but not provided for	282.4	3.3
Authorised, but not contracted for	–	296.7

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 2004 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with Hong Kong accounting standards.

Market risks

Interest rate risk: The Group's interest rate risk principally arises from its interest-bearing long-term liabilities. The Company controls its interest rate risk mainly by adjusting the maturities of its debts.

MANAGEMENT DISCUSSION AND ANALYSIS UNDER HONG KONG ACCOUNTING STANDARDS

Foreign exchange risk: Since the Renminbi is now closely pegged to the US dollar, the Group faces foreign exchange exposure mainly from fluctuations in the exchange rates for currencies other than the US dollar. For overseas purchases and international sales transactions not denominated in US dollars, the Group adopts clauses in purchase contracts designed to transfer or share the exchange rate exposure. The Group also seeks to control foreign exchange risk by the use of derivatives such as futures and options.

Internal controls

The Group has established an internal control system and risk management mechanisms and will conduct verification and make improvements on a periodic basis to ensure their effectiveness and efficiency. The internal control process is aimed at, among other things, ensuring that the Group's assets are safeguarded while improving operating efficiency.

REPORT OF THE SUPERVISORY COMMITTEE

Meetings of the Supervisory Committee

The Supervisory Committee held four meetings during the reporting period, details of which are as follows:

- (1) The first meeting of the third session of the Supervisory Committee of the Company was held at its office on 15 January 2004. 7 Supervisors should have voted at the meeting, and all of them or their authorized representatives have voted. The meeting was legal and valid, and was conducted in compliance with the relevant requirements of Company Law of the People's Republic of China and the Articles of Association of the Company.

The resolution considered and approved the proposal to elect a convener to the third session of the Supervisory Committee, Mr. Zhang Taifeng was elected as convener of the third session of the Supervisory Committee.

The announcement of the resolution of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 16 January 2004.

- (2) The second meeting of the third session of the Supervisory Committee of the Company was held at its office on 7 April 2004. 7 Supervisors should have voted at the meeting, and all of them or their authorized representatives have voted. The meeting was legal and valid, and was conducted in compliance with the relevant requirements of Company Law of the People's Republic of China and the Articles of Association of the Company. The resolutions considered and approved at the meeting are as follows:

- (a) the 2003 Report of the Supervisory Committee of the Company;
- (b) full text of the 2003 annual report of the Company together with its summary;
- (c) the 2003 financial report and profit distribution plan of the Company; and
- (d) the 2004 connected transactions framework agreements proposed to be entered into by the Company.

The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 10 April 2004.

- (3) The third meeting of the third session of the Supervisory Committee of the Company was held at its office on 28 May 2004. 7 eligible Supervisors should have voted at the meeting, and 6 of them have voted. The meeting was legal and valid, and was conducted in compliance with the relevant requirements of Company Law of the People's Republic of China and the Articles of Association of the Company. The resolutions considered and approved at the meeting are as follows:

- (a) offering and listing of H shares;
- (b) distribution and use of proceeds from the offering of H shares;
- (c) description on the status of the use of proceeds from previous capital raising; and
- (d) amendments to the Articles of Association of the Company.

The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 29 May 2004.

- (4) The fourth meeting of the third session of the Supervisory Committee of the Company was held at its office on 27 August 2004. 7 eligible Supervisors should have voted at the meeting, and all of them or their authorized representatives have voted. The meeting was legal and valid, and was conducted in compliance with the relevant requirements of Company Law of the People's Republic of China and the Articles of Association of the Company. The resolutions considered and approved at the meeting are as follows:

- (a) full text of the 2004 interim report of the Company together with its summary; and
- (b) the financial analysis report of the Company for the first half of 2004.

The announcement of resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 31 August 2004.

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1. No material litigation or arbitration were pending or threatened against the Group during the year.
2. The Group had no acquisition, merger or assets restructuring during the year.
3. Significant connected transactions of the Group

(1) Significant connected transactions of the Group during the year:

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

During the reporting period, the Company made no purchases from any of its connected persons that represented more than 5% of the audited net assets of the Company. For details on connected transactions under applicable PRC laws and regulations, please refer to note 7 to the financial statements prepared in accordance with PRC GAAP.

(b) Continuing connected transactions under the Hong Kong Stock Exchange Listing Rules:

Following the listing of the Company's H shares on the Hong Kong Stock Exchange, the Group will continue certain transactions that constitute continuing connected transactions within the meaning of the Hong Kong Stock Exchange Listing Rules as set out in the table below. With respect to the continuing connected transactions, the Hong Kong Stock Exchange has granted to the Group certain waivers from announcement and/or independent shareholders' approval requirements under the Hong Kong Stock Exchange Listing Rules. Details of such waiver have been disclosed in the prospectus of the Company dated 29 November 2004.

Details of the continuing connected transactions are as follows:

1. Purchases of handset batteries by ZTE Kangxun from Shenzhen Ruide Electronic Industrial Company, Limited ("Ruide")

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

The Company holds a 90% stake in ZTE Kangxun:

The Company holds a 63.2% stake in Ruide through its subsidiaries, being Shenzhen Changfei Investment Company, Limited and ZTEIC Design Co., Ltd. The other substantial shareholder of Ruide is Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited ("Zhongxing Xindi") with approximately a 23.0% stake. The remaining approximately 13.8% stake in Ruide is held by an individual shareholder who is a director of Ruide and a connected person of the Group (while not at the level of the Company). Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin and is therefore an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 60% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company (and also a promotor of the Company), Zhongxing Xindi, being an associate of Zhongxingxin, constitutes a connected person of the Company at the level of the Company (and not at the level of the Company's subsidiaries). In addition, given that

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Zhongxing Xindi is a substantial shareholder of Ruide, Ruide itself constitutes a connected person of the Group under the Hong Kong Stock Exchange Listing Rules.

- Total transaction amount for 2004:

Approximately RMB95,568,000

- Pricing and other terms:

ZTE Kangxun has entered into a framework purchase agreement dated 19 November 2004 with Ruide expiring on 31 December 2006. Ruide will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Ruide succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to Ruide pursuant to the framework agreement entered into with it. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Ruide for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Reasons for such transactions

The Group's handset products have become a key driver of our revenue growth and the Group expects handset sales will continue to drive our demand for handset batteries. The Directors of the Company consider it an important strategy to have a co-operative and reliable supplier for handset batteries. The Group's investment in Ruide was

made with this purpose in mind. Through the Group's qualification and bidding procedures, Ruide was selected as one of our suppliers.

2. Sales of liquid crystal displays (LCD) and electronic components by ZTE Kangxun to Shenzhen Lead Communications Company, Limited ("Lead")

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

The Company is a major shareholder of Lead with a 62.5% stake. Zhongxingxin is a substantial shareholder of Lead with a 22.5% stake while an individual holds the remaining 15% stake. Given that Zhongxingxin is a connected person of the Group at the level of the Company (and not at the level of the Company's subsidiaries) and is a substantial shareholder of Lead, Lead itself constitutes a connected person of the Group under the Hong Kong Stock Exchange Listing Rules.

- Total transaction amount for 2004:

Approximately RMB110,994,000

- Pricing and other terms:

ZTE Kangxun has entered into a framework agreement dated 19 November 2004 with Lead expiring on 31 December 2006. Pursuant to the framework agreement, Lead is to issue purchase orders to ZTE Kangxun from time to time, specifying product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as

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contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by the Group for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Reasons for such transactions

The Group's handset products have become a key driver of our revenue growth and the Group expects handset sales will continue to drive our demand for liquid crystal modules and electronic components. Liquid crystal modules are required for the production of handsets and the Group does not produce such components. The production of liquid crystal modules involves the assembly of liquid crystal displays with various electronic components. As this involves merely low cost assembly work, the Directors of the Company consider it suitable for outsourcing the production of liquid crystal modules to Lead and other independent third parties. Lead was selected as our supplier through the Group's qualification and bidding procedures. As Lead does not produce the said components required for the production of liquid crystal modules, ZTE Kangxun purchases liquid crystal displays and various electronic components from independent third party suppliers for onward supply to Lead. The Directors of the Company consider it to be convenient and cost-effective to include Lead's requirements in ZTE Kangxun's procurements for such parts.

components comprising primarily telecommunications cabinets, enclosures and racks, and distribution frames by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi and Shenzhen Zhongxing Xinyu FPC Company, Limited ("Zhongxing Xinyu")

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

Zhongxingxin is a controlling shareholder of the Company.

Given that Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xindi is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 60% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xindi, as an associate of Zhongxingxin, constitutes a connected person of the Group. Given that Zhongxing Xinyu is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinyu is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 55.0% stake in Zhongxing Xinyu. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xinyu, as an associate of Zhongxingxin, constitutes a connected person of the Group.

- Total transaction amount for 2004:

3. Purchases of raw materials and

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Approximately RMB472,834,000

- Pricing and other terms:

ZTE Kangxun has entered into framework purchase agreements dated 19 November 2004 with Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu, respectively. The framework agreements will expire on 31 December 2006. Zhongxingxin and its relevant subsidiaries will each still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If any one of them succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to the successful bidder pursuant to the relevant framework agreement entered into with that bidder. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations and on normal commercial terms.

- Reasons for such transactions

Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu were selected through the Group's qualification and bidding procedures, and the Group believes that they have consistently been able to meet the Group's stringent demands for fast product turnaround time, high product quality and timely delivery. By virtue of the foregoing, Zhongxingxin and Zhongxing Xindi were selected as the suppliers of

distribution frames and packaging materials and Zhongxing Xinyu was selected as the supplier of flexible printed circuit boards. As the Group considers that having reliable and co-operative suppliers is important and beneficial to us, purchasing from Zhongxingxin, Zhongxing Xindi and Zhongxing Xinyu allows us to secure essential control over most of the components of our production by being able to ensure timely delivery of such components while maintaining product quality.

4. Purchases of liquid crystal modules (LCM) by ZTE Kangxun from Lead

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

Lead constitutes a connected person of the Group as its substantial shareholder; Zhongxingxin, is a connected person at the level of the Company (and not at the level of the subsidiaries of the Company). Please see above for further details of Lead.

- Total transaction amount for 2004:

Approximately RMB295,386,000

- Pricing and other terms:

ZTE Kangxun has entered into a framework purchase agreement dated 19 November 2004 with Lead expiring on 31 December 2006. Lead will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Lead

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succeeds in its bid to supply to ZTE Kangxun, ZTE Kangxun will issue purchase orders from time to time to Lead pursuant to the framework agreement entered into with it. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contact details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Lead for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Reasons for such transactions

The Group expects handset sales will continue to be a driver of our revenue growth. In order to capture the growing market demand, the Group requires steady, reliable and quality supplies of liquid crystal modules for the Group's handset products. As the production of these liquid crystal modules involves merely low value-added assembly work, there are few suppliers of raw materials and components that are able to undertake such large-scale production as required by the Group for the prices we offer. Lead was established to handle large-scale production at low unit cost and to specialize in the supply of liquid crystal modules. The Group believes that it has also been able to provide us a fast production turnaround time, consistent product quality and timely delivery. The Group has now taken a majority stake in Lead as the Directors of the Company consider that having Lead as our subsidiary

allows us to secure steady supplies of quality liquid crystal modules in large volumes from a co-operative, reliable and specialized supplier that would not otherwise be easily available from other suppliers for comparable prices.

(2) The independent non-executive Directors of the Company have reviewed the connected transactions and confirmed that:

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

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

- were approved by the Board of Directors of the Company;
- were conducted in accordance with the pricing policies of the Company;
- were conducted in accordance with the terms of the agreements governing them; and
- within the relevant annual caps as agreed by the Hong Kong Stock Exchange.

Note: the Company found the following when

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reviewing its continuing connected transactions:

- The total transaction amounts for 2004 for each of the categories of connected transactions listed below entered into between the Group and its connected persons in compliance with the de minimis provision under Rule 14A.33 of the Hong

Kong Stock Exchange Listing Rules as disclosed in the Company's prospectus dated 29 November 2004 exceeded the estimated total transaction amounts for 2004 for such connected transactions as disclosed in the prospectus. The details are as follows:

Notwithstanding the total transaction

Number	Parties to the transaction	Nature of the transaction	2004 estimated total transaction amount disclosed in the prospectus (RMB10,000)	2004 actual total transaction amount (RMB10,000)
1	Lead as one party Shenzhen Zhongxing Xinyu FPC Company, Limited ("Zhongxing Xinyu") as another party	Purchases of flexible printed circuit board materials by Lead from Zhongxing Xinyu	220	267
2	Beijing Zhongxing Intelligent Transportation Systems Ltd. ("Beijing Intelligent") as one party Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited ("Zhongxing Xindi") as another party	Purchases of distribution frames by Beijing Intelligent from Zhongxing Xindi	60	99
3	ZTE Kangxun as one party Chung Hing (Hong Kong) Development Limited as another party	Purchases of printers and other electronic equipment by ZTE Kangxun from Chung Hing (Hong Kong)	70	150

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amounts for 2004 for each of the categories of connected transactions listed above exceeded the estimated total transaction amounts as disclosed in the prospectus, the above connected transactions remain within the threshold specified for de minimis transactions under Rule 14A.33 of the Hong Kong Stock Exchange Listing Rules, that is, the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Stock Exchange Listing Rules on an annual basis for 2004 were less than 0.1%.

- During 2004, ZTEIC Design Co., Ltd., a subsidiary of the Company, purchased handset batteries from Zhongxing Xindi for an annual total amount of RMB7.20 million. Such category of connected transaction was not disclosed in the prospectus. However, this falls within the de minimis provision of Rule 14A.33 of the Hong Kong Stock Exchange Listing Rules, that is, the percentage ratio (other than profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Stock Exchange Listing Rules on an annual basis for 2004 were less than 0.1%. Such category of transactions is not subject to the relevant disclosure, announcement and independent shareholders' approval requirements. The Company confirms that such category of transactions will not be conducted starting from 2005.

4. Material contracts of the Group

(1) During the year, the Company did not materially put on trust, subcontract, or lease any assets of other companies nor did other companies put on trust, subcontract or lease any of the Company's assets.

(2) Corporate guarantee by the Company:

- The Company's external guarantees were made in strict compliance with the "Notice Regarding Listed Companies Providing Guarantees for Other Persons" (Zheng Jian Gong Si Zi [2000]61) and "Notice of Regulating Several Issues of Funds Uses with Connected Parties and External Guarantees of Listed Companies". The Company made the guarantees mainly for the purpose of market development. The approval procedure included a written application and related materials in respect of the external guarantee be submitted by the marketing and funding personnel to the Company's funding department. After review by the funding department together with the legal, investment, finance and other related departments, submissions shall be made to the Company's chief financial controller and the President for examination and approval. Finally, submission shall be made to the Board of Directors. Any guarantee involving a substantial sum of money shall be submitted to the shareholders' general meeting for consideration.
- As at the end of the reporting period, the Company had the following external guarantees:

Number	Party for which guarantee is granted	Amount	Term	Status
1	Chengdu Information Port Company Limited	RMB4 million	15/7/2004-15/1/2005	Obligation performed
2	ZTE Kangxun	USD28.51 million	23/4/2004-1/7/2004	Obligation performed
3	ZTE Kangxun	USD21.00 million	27/9/2004-13/12/2004	Obligation performed

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Notes:

The guarantee issued in favour of Chengdu Information Port Company Limited ("Chengdu Information Port") in favor of the China Construction Bank, Minjiang, Chengdu Branch. Juyou Network Industrial Group Limited ("Juyou Network"), being a shareholder of Chengdu Information Port, provided a counter-guarantee for the guarantee. Upon maturity, Chengdu Information Port could not settle the entire loan and only repaid RMB500,000. The Company repaid RMB3.5 million for Chengdu Information Port. As Juyou Network is liable under the counter-guarantee, the Company entered into the Settlement Plan Agreement with Juyou Network ("Settlement Agreement"). Pursuant to the Settlement Agreement, Juyou Network paid RMB200,000 and RMB300,000 to the Company in January and February respectively, totalling RMB500,000 together with interest (more than RMB10,000). Juyou will continue to repay the Company RMB300,000 per month with interest from March to December under the Settlement Agreement.

The Company and its controlling subsidiary, ZTE Kangxun, may jointly utilize the facilities provided by banks including Minsheng Bank and Bank of Communications to the Company. It was agreed that ZTE Kangxun may independently sign loan contracts with the banks within the scope of facilities. In respect of all debts incurred by ZTE Kangxun under the loan, the Company will assume and guarantee all of ZTE Kangxun's liabilities. ZTE Kangxun utilised the loan in foreign currency based on production and operational needs. ZTE Kangxun repaid the principal and interest to the banks on time. Hence, the Company did not incur any loss.

(3) During the year, the Company did not have any entrusted investments.

(4) Other material contracts:

On 14 February 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that it entered into an Export Purchaser Loan Agreement with Export-Import Bank of China, whereby Export-Import Bank of China shall provide export purchaser credit facilities to the extent of USD500 million to those foreign organisations that intend to cooperate with the Company.

On 14 February 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that it entered into an Equipment Supply and Service Contract with an Indonesian company, PT Indonesian Satellite Corporation TBK (hereinafter referred to as "INDOSAT Corporation") valued at approximately USD47.6 million.

On 20 March 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that it entered into a contract with Guangdong Telecommunications Company Limited for the supply of wireless local access service system in the amount of RMB647,565,595.

On 29 May 2004, an announcement was issued by the Company in China Securities Journal, Securities Times and Shanghai Securities News that ZTE do Brasil Ltda, a subsidiary of the Company, entered into a Handsets Supply Contract with VIVO, a Brazilian telecommunications services provider, with a contract value of approximately USD100 million.

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(5) Undertakings

During the reporting period, neither the Company nor its shareholders having an interest of more than 5% (inclusive) in the Company provided any undertakings, nor was there any undertaking subsisting during the reporting period.

5. Engagement of reporting accountants/auditors by the Company

Shenzhen Dahua Tiancheng Certified Public Accountants and Ernst & Young are the Company's domestic and international auditors respectively. The Company appointed for the first time an international auditor outside the PRC for its initial public offering of H shares in 2004.

Item	Amount	Auditing firm
Auditing fees	RMB480,000	Shenzhen Dahua Tiancheng Certified Public Accountants
Auditing fees	HKD3.45 million (including related disbursements)	Ernst & Young

Note: The above fees do not include fees for the H share offering by the Company in 2004.

6. Replacement of reporting accountants/auditors for the last three years

Upon expiry of the term of appointment of Shenzhen Nanfang-Minhe Certified Public Accountants, the original domestic auditors of the Company, the Board of Directors organized a tender for the appointment of new domestic auditors for the Company, pursuant to which Shenzhen Dahua Tiancheng Certified Public Accountants was, after competitive tendering, appointed as new domestic auditors of the Company. Upon approval granted at the third extraordinary meeting, the Company resolved to appoint Shenzhen Dahua Tiancheng Certified Public Accountants as the new domestic auditors of the Company for a term of one year.

7. During the reporting period, the Company was not involved in any significant events as specified under Rule 62 of the Securities Law of the People's Republic of China and Rule 17 of the Public Listing Share Information (Provisional) promulgated by the China Securities Regulatory Commission.

(1) Amendments to the Articles of Association

At the two extraordinary meetings held on 15 January 2004 and 30 June 2004 respectively, amendments were made to the Articles of Association.

(2) Changes in the registered capital of the Company

Changes in the registered capital of the Company are set out on page 21 of this annual report.

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8. Confirmation of independence of the independent Directors

The Company confirms that it has received written confirmations from all the independent non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Stock Exchange Listing Rules. The Company considers that the independent non-executive Directors are independent based on the guidelines set out in Rule 3.13 of the Hong Kong Stock Exchange Listing Rules.

9. Designated publications for information disclosure

China Securities Journal, Securities Times and Shanghai Securities News have been selected by the Board of Directors as designated newspapers for corporate information disclosure within PRC.

South China Morning Post and Hong Kong Economic Times have been selected by the Board of Directors as designated newspapers for corporate information disclosure in English and Chinese respectively outside PRC.

NOTICE OF 2004 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting (hereinafter referred to as the "AGM") of ZTE Corporation (hereinafter referred to as the "Company") for the year 2004 will be held in accordance with the resolution passed by the twelfth meeting of the third session of the Board of Directors of the Company held on 10 April 2005. Details of the AGM are set out below:

1. Information Regarding the Meeting

(1) Time of meeting

The AGM will commence at 9:00am on 31 May 2005.

(2) Venue

The AGM will be held at Yinhu Convention Hall, Yinhu Travel Resort, Shenzhen, PRC.

(3) Convener

The AGM will be convened by the Board of Directors of the Company.

(4) Voting method

Voting will be carried out on-site at the AGM.

(5) Attendees

1. All ZTE (000063) shareholders registered with China Securities Depository & Clearing Corporation Limited, Shenzhen Office upon the close of trading of its A shares on the Shenzhen Stock Exchange (hereinafter referred to as "Domestic Shareholders") on Friday, 29 April 2005 at 3:00 pm;
2. All shareholders registered on the Company's H share register maintained by Computershare Hong Kong Investor Services Limited upon the close of trading of its H shares on The Stock Exchange of Hong Kong Limited ("HKSE") on Friday, 29 April 2005 at 4:00 pm (hereinafter referred to as "H Shareholders");
3. Directors, supervisors and senior management of the Company;

4. Representatives of intermediaries engaged by the Company and guests invited by the Board of Directors.

(6) Period of closure of H share register

The Company will close its H share register from Saturday, 30 April 2005 to Monday, 30 May 2005 (inclusive). Any H Shareholder who wishes to receive the final dividend for the year shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Room 1712-16, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 29 April 2005 at 4:00 pm. Details of the record date, dividend payment method and dividend payment date for Domestic Shareholders will be announced separately.

2. AGM Resolutions

To consider and, if thought fit, pass the following resolutions at the AGM as follows:

ORDINARY RESOLUTIONS

1. to consider and approve the financial statements for the year ended 31 December 2004 audited by the Company's domestic and international auditors
2. to consider and approve the report of the Board of Directors of the Company for the year ended 31 December 2004
3. to consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2004
4. to consider and approve the report of the President of the Company for the year ended 31 December 2004
5. to consider and approve the annual report of the Company for the year ended 31 December 2004
6. to consider and approve the profit distribution plan for the year ended 31 December 2004

NOTICE OF 2004 ANNUAL GENERAL MEETING

7. to consider and approve the Connected Transactions Framework Agreements (《關連交易框架協議》) proposed to be entered into by the Company;
 - 7.1 the *2005 Framework Purchase Agreement* (《2005年年度採購框架協議》) to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, a connected person of the Company and its subsidiaries;
 - 7.2 the *2005 Framework Purchase Agreement* (《2005年年度採購框架協議》) to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Xi'an Microelectronics Technology Research Institute, a connected person of the Company;
 - 7.3 the *2005 Framework Purchase Agreement* (《2005年年度採購框架協議》) to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Chung Hing (Hong Kong) Development Limited, a connected person of the Company;
 - 7.4 the *2005 Framework Purchase Agreement* (《2005年年度採購框架協議》) to be entered into between Shenzhen Lead Communications Company, Limited, a subsidiary of Shenzhen Changfei Investment Company Limited, which is in turn a subsidiary of the Company, and Shenzhen Zhongxing Xinyu FPC Company, Limited, a connected person of the Company;
 - 7.5 the *2005 Framework Purchase Agreement* (《2005年年度採購框架協議》) to be entered into between ZTE Kangxun Telecom Company, Limited, a subsidiary of the Company, and Shenzhen Zhongxing WXT Equipment Company, Limited and its subsidiaries, a connected person of the Company;
8. to consider and approve the appointment of Ernst & Young as the Company's international auditors for the year ended 31 December 2004 and determination of the remunerations for domestic and international auditors.
 - 8.1 confirmation of Ernst & Young as the Company's international auditors and their remuneration as HKD3,450,000 (including travel disbursements and other expenses) for the year ended 31 December 2004;
 - 8.2 reappointment of Ernst & Young as the Company's international auditors for the year ending 31 December 2005 and authorization to the Board of Directors of the Company to determine their remuneration;
 - 8.3 confirmation that Shenzhen Dahua Tiancheng Certified Public Accountants as the Company's domestic auditors and their remuneration as RMB480,000 for the year ended 31 December 2004;
9. to consider and approve the following resignations of Directors:
 - 9.1 resignation of Mr. Tan Shanyi as Director
 - 9.2 resignation of Mr. Tan Zhenhui as independent Director
10. to consider and approve the following resignation and replacement of Supervisors:
 - 10.1 resignation of Ms. Li Huanru as shareholder representative Supervisor
 - 10.2 resignation of Ms. Cui Hongwei as shareholder representative Supervisor
 - 10.3 resignation of Mr. Cao Quansheng as shareholder representative Supervisor
 - 10.4 resignation of Mr. Li Jinhu as shareholder representative Supervisor
 - 10.5 appointment of Mr. Qu Deqian as shareholder representative Supervisor of the third session of the Supervisory Committee of the Company for a term commencing the date of approval at the AGM to 7 February 2007. For more information on Mr. Qu Deqian, please refer to Appendix 1 herein.

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10.6 appointment of Ms. Wang Yan as shareholder representative Supervisor of the third session of the Supervisory Committee of the Company for a term commencing the date of approval at the AGM to 7 February 2007. For more information on Ms. Wang Yan, please refer to Appendix 1 herein.

SPECIAL RESOLUTIONS

11. To consider and, if thought fit, pass the following resolution as a special resolution:

“THAT the following amendments to the *Articles of Association of ZTE Corporation* passed by the general meeting of the Company held on 30 June 2004 (hereinafter referred to as the “Articles of Association”) be and are hereby approved, and the Board of Directors be authorised to modify the wording of the amendments and do all things in respect of the amendments, in accordance with the requirements of any rules of any stock exchange(s) on which the shares of the Company are listed:

(1) Amendment to “Article 1”

Existing Article 1: “These Articles of Association are formulated pursuant to the *Company Law of the People’s Republic of China* (the “Company Law”), the *Securities Law of the People’s Republic of China* (the “Securities Law”), the *Guidance on the Articles of Association of Listed Companies* (the “Guidance for the Articles”), the *Mandatory Provisions for Companies Listing Overseas* (the “Mandatory Provisions”) as well as other relevant laws and regulations of the State in order to protect the lawful rights and interests of the Company, the shareholders and the creditors and to regulate the organization and activities of the Company.”

Replacement article: “These Articles of Association are formulated pursuant to the *Company Law of the People’s Republic of China* (the “Company Law”), the *Securities Law of the People’s Republic of China* (the “Securities Law”), the *Guidance on the Articles of Association of Listed Companies* (the “Guidance for the Articles”), the *Mandatory Provisions for*

Companies Listing Overseas (the “Mandatory Provisions”), the *Regulatory Opinions on General Meetings of Listed Companies* (the “Regulatory Opinions”), the *Certain Rules for Enhancing Protection of Interests of Public Shareholders* (the “Certain Rules”), the *Working Guidelines (Provisional) Relating to Online Voting for General Meetings of Listed Companies* (the “Working Guidelines”) as well as other relevant laws, and regulations of the State in order to protect the lawful rights and interests of the Company, the shareholders and the creditors and to regulate the organization and activities of the Company.”

(2) Amendment to the first paragraph of “Article 9”

Existing first paragraph of Article 9: “The Company amended the original Articles of Association (the “Original Articles of Association”) and formulated these Articles of Association (the “Articles of Association”) in compliance with the provisions of the Company Law, the Special Regulations, the Mandatory Provisions, the Guidance for the Articles and other laws and administrative regulations and rules of People’s Republic of China (the “PRC”).”

Replacement paragraph: “The Company amended the original Articles of Association (the “Original Articles of Association”) and formulated these Articles of Association (the “Articles of Association”) in compliance with the provisions of the Company Law, the Special Regulations, the Mandatory Provisions, the Guidance for the Articles, the Regulatory Opinions, the Certain Rules, the Working Guidelines and other laws and administrative regulations and rules of People’s Republic of China (the “PRC”).”

(3) Amendments to the phrases “general manager” and “deputy general manager”

Any references in the Articles of Association to “general manager” be amended to “president”; and any

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references to “deputy general manager” be amended to “senior vice president” and “vice president”.

(4) Amendment to “Article 21”

Existing Article 21: “The domestic shares of the Company shall be centralized and held in custody by the Shenzhen Branch of the China Securities Depository & Clearing Corporation Limited. H Shares of the Company shall either be held by a custodian company under the Hong Kong Securities Clearing Company Limited or held by the individual shareholders in their own names.”

Replacement article: “The domestic shares of the Company shall be centralized and held in custody by the Shenzhen Branch of the China Securities Depository & Clearing Corporation Limited. H Shares of the Company shall either be held by the central depository of Hong Kong Securities Clearing Company Limited or held by the individual shareholders in their own names.”

(5) Insertion of new “Article 60”

New Article 60: “The controlling shareholder and persons who exercise effective control over the Company have a duty of good faith towards the Company and its public shareholders. The controlling shareholder shall execute its rights as an investor in strict compliance with the law. The controlling shareholder shall not adversely affect the legal interests of the Company and its public shareholders through connected transactions, profit distribution, asset restructuring, foreign investment, use of capital, lending guarantees and shall not exercise its powers against the interests of the Company and public shareholders.”

(6) Insertion of new “Article 61”

New Article 61: “The Company shall take an active role in establishing an adequate system of investor relationship management and enhance communications between the Company and its shareholders, especially its public shareholders, through various channels. The Company Secretary shall be

responsible for the management of investor relationships of the Company.”

(7) Insertion of new “Article 66”

New Article 66: “The Company shall, subject to the shareholders’ general meetings being legally and validly held, encourage the proportion of participation of public shareholders at general meetings through various means, including using modern information technology to establish an online voting platform.”

(8) Amendment to “Article 64”

Existing Article 64: “When the Company convenes a shareholders’ general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all shareholders whose names appear in the register of members of the matters to be considered at and the date and place. Shareholders who intend to attend the meeting shall deliver to the Company a written confirmation of their attendance twenty (20) days before the date of the meeting.”

Insertion of a new paragraph after the existing paragraph, “In considering the matters stated in Article 106 at shareholders’ general meetings, the Company shall, after the issue of the notice of general meeting, re-issue the notice of general meeting within three (3) days after the share registration date. The relevant announcement shall be published in newspapers which are in compliance with the relevant regulations.”

(9) Amendment to the second paragraph of “Article 69”

Existing Article 69: “If the shareholder is a recognized clearing house (or its agent) as defined in the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong), such shareholder is entitled to authorize one or more persons as he deems appropriate as his proxies to attend on his behalf any general meeting or any class meeting provided that, if one or more persons have such authority, the letter of

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authorization shall specify the number and class of shares in connection with such authorization. Such persons can exercise the right on behalf of the recognized clearing house (or its agent) as if he is an individual shareholder of the Company."

Replacement paragraph: "If the shareholder is a recognized clearing house (a "Recognized Clearing House") (or its agent) as defined under the laws of Hong Kong, such shareholder is entitled to authorize one or more persons as he deems appropriate as his proxies to attend on his behalf any general meeting or any class meeting provided that, if one or more persons have such authority, the letter of authorization shall specify the number and class of shares in connection with such authorization. Such persons can exercise the right on behalf of the Recognized Clearing House (or its agent) as if he is an individual shareholder of the Company."

(10) Amendment to "Article 70"

Existing Article 70: "The instrument appointing a proxy shall be in writing under the hand of the appointor or his agent duly authorized in writing, or if such appointor is a legal person, either under seal or under the hand of a director or a duly authorized agent."

Such letter of authorization shall state the number of shares to be represented by an agent. If several persons are so authorized, the letter of authorization shall specify the number of shares to be represented by each attorney."

Replacement Article: "The instrument appointing a proxy shall be in writing under the hand of the appointor or his agent duly authorized in writing, or if such appointor is a legal person, either under seal or under the hand of a director or duly authorized person or agent."

Such letter of authorization shall state the number of shares to be represented by an agent. If several persons are so authorized, the letter of authorization shall specify the number of shares to be represented by each attorney."

(11) Amendment to item 1, paragraph 1 of "Article 75"

Existing paragraph: "Two or more shareholders holding in aggregate not less than (10%) per cent of the shares carrying voting rights at the meeting sought to be held (the "Proposing Shareholders") may sign a written requisition in one or more counterparts in the same form and content, requiring the board of directors to convene an extraordinary general meeting or a class meeting and stating the object of the meeting. The board of directors shall convene an extraordinary general meeting or a class meeting as soon as possible after receipt of such requisition(s). The number of share referred to above shall be calculated as of the date such requisition(s) is/are made."

Replacement paragraph: "Shareholder(s) solely or jointly holding in aggregate not less than then (10%) per cent of the shares carrying voting rights at the meeting sought to be held (the "Proposing Shareholder") may sign a written requisition in one or more counterparts in the same form and content, requiring the board of directors to convene an extraordinary general meeting or a class meeting and stating the object of the meeting. The board of directors shall convene an extraordinary general meeting or a class meeting as soon as possible after receipt of such requisition(s). The number of share referred to above shall be calculated as of the date such requisition(s) is/are made."

(12) Amendment to "Article 85"

Existing Article 85: "When the Company convenes an annual shareholders' general meeting, shareholder(s) holding not less than five (5%) of the total number of voting shares of the Company or the supervisory committee shall have the right to propose to the Company an *ex tempore* motion in writing in accordance with law."

A shareholder or the supervisory committee proposing an *ex tempore* motion shall submit the same to the board of directors ten (10) days prior to

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the shareholders' general meeting and such motions shall thereafter be made public by announcement in newspapers which are in compliance with the relevant regulations upon examination and verification by the board of directors if such *ex tempore* motion is a new item which has not been contained in the notice given by the board of directors and involves:

- (1) an increase or reduction of registered capital of the Company;
- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution and liquidation of the Company;
- (4) the amendment of the Articles of Association;
- (5) plans for profit distribution and for making up losses;
- (6) appointment and removal of the members of the board of directors and the supervisory committee;
- (7) changes in the use of proceeds from share offerings;
- (8) connected transactions which are subject to consideration at the shareholders' general meeting;
- (9) matters relating to the acquisition or sale of assets which are subject to the consideration at a shareholders' general meeting;
- (10) change of accountants;
- (11) other matters which shall not be voted by correspondence as provided by the Articles of Association.

When the first majority shareholder proposes new motions in connection with issues on distribution, it shall submit the same to the board of directors ten (10) days prior to the annual shareholders' general meeting and such motions shall thereafter be made public by announcement by the board of directors.

If the submission is made less than ten (10) days, the first majority shareholder shall not propose any new motion relating to issues on distribution at the same annual shareholders' general meeting. The relevant announcement shall be published in newspapers which are in compliance with the relevant regulations.

For motions other than those set forth above, the shareholder proposing a motion may either submit the motion to the board of directors at an earlier time for making public announcement by the board of directors or directly presenting the same at a shareholders' general meeting. The relevant announcement shall be published in newspapers which are in compliance with the relevant regulations.

Replacement paragraph after the existing first paragraph: "If online voting is adopted by the Company for the annual shareholders' general meeting, the *ex tempore* motion so proposed shall be announced by the board of directors at least ten (10) days in advance. Any *ex tempore* motion proposed at the general meeting or other *ex tempore* motions which have not been announced shall not be included in the agenda of the shareholders' general meeting."

[13] Amendment to the second paragraph of "Article 91"

Existing paragraph: "A shareholder or his proxy present at the general meeting shall, in relation to each matter requiring voting, clearly express whether he is in favour of or against such matter. Any abstention from or waiver of voting shall not be regarded as a valid vote when the Company counts the votes in respect of the relevant matter."

Amendment paragraph: "A shareholder or his proxy present at the general meeting shall, in relation to each matter requiring voting, clearly express whether he is in favour of or against such matter. Any abstention from or waiver of voting shall not be regarded as a valid vote when the Company counts the number of votes in respect of the relevant matter. However, without prejudice to matters

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stated in Article 96, when voting in relation to Article 106, the abstained and waived votes by the shareholders or proxies shall be regarded as valid votes.”

[14] Insertion of new “Article 95”

New Article 95: “The board of directors, independent directors and shareholders who meet the relevant requirements may solicit from other shareholders their rights to vote in general meetings. The solicitation shall be without consideration and information shall be fully disclosed to such shareholders.”

[15] Amendment to “Article 94”

Existing Article 94: “At any shareholders’ general meeting, a resolution shall be decided on a show of hands unless otherwise provided for in the Listing Rules, or a poll is demanded by the following persons before or after a vote is carried out by a show of hands:

- (1) by the chairman of the meeting;
- (2) by at least two shareholders (or proxies) who have voting rights; or
- (3) by one or more shareholders (including proxies) holding solely or in combination not less than ten (10%) per cent of the shares carrying voting rights at the meeting.

Unless otherwise provided for in the Listing Rules, or a poll is demanded, the chairman shall declare that a resolution has been passed based on the results of the vote by a show of hands, and shall record the same in the minutes of the meeting, which shall serve as conclusive evidence of the fact that such resolution has been passed, without the need to provide evidence of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.”

Replacement Article: “At any shareholders’ general meeting, a resolution shall be decided on a show of

hands unless otherwise provided for in the Listing Rules or the Articles of Association, or a poll is demanded by the following persons before or after a vote is carried out by a show of hands:

- (1) by the chairman of the meeting;
- (2) by at least two shareholders (or proxies) who have voting rights; or
- (3) by one or more shareholders (including proxies) holding solely or in combination not less than ten (10%) per cent of the shares carrying voting rights at the meeting.

Unless otherwise provided for in the Listing Rules or the Articles of Association, or unless a poll is demanded, the chairman shall declare that a resolution has been passed based on the results of the vote by a show of hands, and shall record the same in the minutes of the meeting, which shall serve as conclusive evidence of the fact that such resolution has been passed, without the need to provide evidence of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.”

[16] Amendment to “Article 95”

Existing Article 95: “A poll demanded on the election of the chairman of the meeting or on a question of adjournment of the meeting shall be taken forthwith. A poll demanded on any other matters shall be taken at such time as the chairman of the meeting directs and the meeting may proceed to discuss other matters. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.”

Replacement Article: “A poll demanded on the election of the chairman of the meeting or on a question of adjournment of the meeting shall be taken forthwith. A poll demanded on any other matters, other than the use of online voting in accordance with Articles 100 and 101 shall be taken at such time as the

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chairman of the meeting directs and the meeting may proceed to discuss other matters. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded."

[17] Insertion of "Article 100"

New Article 100: "When considering matters specified in Article 106 at a shareholders' general meeting, other than voting in person at the meeting, the Company should also make available to shareholders a safe, economical and convenient online voting system."

[18] Insertion of "Article 101"

New Article 101: "Where the Company convenes a shareholders' general meeting, and online voting is available to the shareholders, the Company shall clearly specify in the notice of the shareholders' general meeting the timing and procedure for online voting online as well as matters to be considered at the meeting.

Online voting for the shareholders' general meeting shall commence no earlier than 3:00 p.m. on the day before the shareholders' general meeting, nor later than 9:30 a.m. on the day of the shareholders' general meeting. Online voting shall end no earlier than 3:00 p.m. on the day the shareholders' general meeting is adjourned."

[19] Insertion of "Article 106"

New Article 106: "The following matters shall, in accordance with the laws, regulations and the Articles of Association, be subject to the approval at the shareholders' general meeting by more than one half of the votes of public shareholders attending the meeting and carrying voting rights:

- (1) the offering by the Company of additional new shares to the public (including the offering of overseas listed foreign shares or other securities-related certificates), issuing of convertible bonds by the Company, and placing of shares to existing shareholders (except for

shares in which the shareholder with effective controlling rights has undertaken before the shareholders' general meeting is held to fully subscribe for in cash);

- (2) any major asset restructuring of the Company in which the total consideration for the assets to be purchased exceeds the audited net book value of the assets purchased by 20% or more;
- (3) the repayment by shareholders of their debts due to the Company with their equity interests in the Company;
- (4) the overseas listing of any subsidiary that has a material impact on the Company;
- (5) any relevant matter relating to the development of the Company which may have material effect on the interests of the public shareholders."

[20] Amendment to "Article 106"

Existing Article 106: "The board of directors of the Company shall retain qualified legal counsel to attend the shareholders' general meeting, who shall give advice and make an announcement on the following issues:

- (1) whether or not the procedures for convening and holding the shareholders' general meeting comply with the requirements of the laws and regulations and the Articles of Association;
- (2) verification of the legal eligibility of persons attending the meeting;
- (3) verification of the eligibility of the shareholders who propose a new motion at the annual shareholders' general meeting;
- (4) whether or not the voting procedures for the shareholders' general meeting are lawful and valid;
- (5) issuance of legal opinion on other relevant issues at the request of the Company.

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The relevant announcement shall be published in newspapers which are in compliance with the relevant regulations.

The board of directors of the Company may appoint a notary public to attend a shareholders' general meeting."

Insertion of new paragraph (5) following the existing paragraph (4), and renumbering of the existing paragraph (5) into paragraph (6). New paragraph (5): "issuance of legal opinion on matters relating to online voting at general meetings (if adopted);"

(21) Insertion of "Article 114"

New Article 114: "Upon conclusion of voting at the shareholders' general meeting, the Company shall only announce the voting results to the public after aggregating all the votes cast in person, online and using other voting methods in accordance with the relevant requirements.

Prior to the formal public announcement, the online service provider effecting the online voting for the shareholders' general meeting, the Company, and its substantial shareholders shall have a duty of confidentiality in relation to the voting results."

(22) Insertion of "Article 115"

New Article 115: "If matters to be considered at a shareholders' general meeting involves matters set out in Article 106, the Company shall, when making an announcement of resolutions adopted at the shareholders' general meeting, specify the number of public shareholders voting, the number of shares held, their shareholdings in proportion to the total number of shares held by the public shareholders, the voting results, and the shareholdings of the top ten public shareholders who attended and voted at the meeting as well as their voting results."

(23) Amendment to "Article 121"

Existing Article 121: "A director may resign prior to the expiration of his term of office. If a director resigns from his office, he shall submit a written notice of

his resignation to the board of directors and be subject to approval at a shareholders' general meeting. Prior to the approval of his resignation, such director shall continue to assume the responsibilities in the capacity of a director."

Replacement article: "A director may resign prior to the expiration of his term of office. If a director resigns from his office, he shall submit a written notice of his resignation to the board of directors."

(24) Amendment to "Article 125"

Existing Article 125: "The Company shall appoint independent directors, who do not hold any positions in the Company other than acting as directors and do not maintain any connection with the Company and its substantial shareholders which may impair their independent and objective judgment. In addition, independent directors must comply with the guidelines on independence contained in the Listing Rules."

Insertion of new paragraph after existing paragraph: "Independent directors shall comprise one third or more of the board of directors of the Company, of whom there shall be at least one accounting professional. An independent director shall faithfully fulfill his duties and protect the Company's interests, in particular, ensuring that the legal interests of public shareholders are not impaired."

(25) Amendment to "Article 128"

Existing Article 128: "The nomination, election and removal of independent directors shall be properly conducted according to law as follows:

- (1) Candidates for independent directors may be nominated by the board of directors, the supervisory committee or shareholders individually or jointly holding not less than one per cent (1%) of the Company's shares, and shall be elected by the shareholders' general meetings.
- (2) Before nominating a candidate for election as an independent director, the nominator shall first obtain the

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consent of the nominee and shall have a full understanding of the nominee's qualifications, educational background, profession, detailed working experience and all other positions undertaken on a part-time basis and shall also be responsible for providing his opinion in connection with the qualifications and independence of such nominee acting as an independent director. The nominee shall make a public statement that there does not exist any relationship between himself and the Company which may influence his independent objective judgment.

The board of directors of the Company shall make a public announcement in respect of such content set forth above prior to holding the shareholders' general meeting for election of independent directors.

- (3) Before a general meeting of shareholders is held to elect independent directors, the Company shall simultaneously submit relevant materials regarding all nominees to the CSRC, the local residence office of the CSRC at the place where the Company is located, and the stock exchanges on which the Company's shares are listed. If the board of directors objects to the qualifications of the nominees, a written opinion of the board of directors in connection therewith shall also be submitted at the same time.

The CSRC shall examine and verify the qualifications and independence of an independent director within fifteen (15) working days. If the CSRC has an objection to a nominee, such nominee may be a candidate for election as a director of the Company, but not a candidate for election as an independent director.

When convening a shareholders' general meeting to elect independent directors, the board of

directors of the Company shall explain whether the CSRC had any objection to any of the candidates being elected as independent directors.

- (4) Each term of office of the independent directors shall be the same as those of the other directors. The term of an independent director may be renewed upon re-election and re-appointment after the expiration of his term, provided the renewal period shall not exceed six (6) years.
- (5) If an independent director fails to attend three consecutive board meetings in person, the board of directors shall propose at the shareholders' general meeting that such independent director be removed.

Except for circumstances described above and those set out in the Company Law relating to the prohibition of a person to act as a director, an independent director shall not be removed, without cause, from his office before the expiration of his term of office. Where an independent director is removed from office prior to its expiration, the Company shall make special disclosure in relation thereto. The removed independent director may make a public statement if he believes that he has been improperly removed from his office.

- (6) Independent directors may resign prior to the expiration of their term of office. If an independent director resigns from his office, he shall submit a written notice of his resignation to the board of directors and provide an explanation of the circumstances which are relevant to his resignation and which in his opinion are necessary to bring to the notice of the shareholders and creditors of the Company.

If the resignation of an independent director will result in the board of

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directors of the Company having less than the minimum required proportion of independent directors as stipulated by the Articles of Association, then such independent director's notice of resignation shall only become effective after a new independent director has been appointed to fill the vacancy so caused by his resignation."

Replacement sub-paragraph for second sub-paragraph of paragraph 6: "Where the resignation of an independent director results in the board of directors having less than the minimum number of directors or independent directors required by law or the Articles of Association, that independent director must continue to perform his duties pursuant to the laws, administrative regulations and the Articles of Association until the replacement independent director takes office. The board of directors shall convene a shareholders' general meeting to elect a replacement independent director within 2 months. Where a shareholders' general meeting is not convened within the period, the resigning independent director need not continue to perform his duties."

Insertion of new paragraph (7) after existing paragraph (6): "No independent director shall be removed from office without proper reason before expiration of his term of office. If an independent director is dismissed before expiration of his term, the Company shall disclose such removal as a special matter."

(26) Amendment to "Article 129"

Existing Article 129: "In order to fully utilize his function, an independent director shall, apart from the powers conferred on directors under the Company Law and other relevant laws and regulations and the Articles of Association, also have the following special functions and powers:

- (1) to endorse material connected transactions (referring to such connected transactions to be entered into between the Company and a connected person and total

amount of which exceeds RMB 3 million or 5% of the Company's most recent audited net asset value) before submitting to the board of directors for consideration.

Prior to making a judgment, the independent directors may appoint an intermediary to prepare an independent financial adviser's report as a basis for their judgment.

- (2) to give recommendations to the board of directors to appoint or dismiss an accounting firm;
- (3) to propose to the board of directors to convene an extraordinary general meeting;
- (4) to propose to convene a board meeting;
- (5) to engage external auditors or advisers independently;
- (6) to solicit votes from shareholders prior to the shareholders' general meeting.

When exercising their functions and powers referred to above, independent directors shall obtain the consent of not less than half of the total number of independent directors.

If the proposals set out above are not adopted or such functions and powers as set forth above may not be exercised under normal circumstances, the Company shall disclose the relevant circumstances."

Replacement Article: "An independent director shall perform his duties independently without being influenced by a substantial shareholder, a person with de facto control of the Company or a unit or individual who or which have an interest in the Company, its controlling shareholders, or a person with de facto control of the Company.

In order to fully utilize his function, an independent director shall, apart from the powers conferred on directors under the

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Company Law and other relevant laws and regulations and the Articles of Association, also have the following special functions and powers:

- (1) to approve, before submitting to the board of directors for consideration, proposed material connected transactions, or appointment or dismissal of accountants before submitting to the board of directors for consideration;
- (2) to propose to the board of directors to convene an extraordinary general meeting;
- (3) to propose to convene a board meeting;
- (4) to solicit votes from shareholders prior to the shareholders' general meeting.

When exercising their functions and powers referred to above, independent directors shall obtain the consent of not less than half of the total number of independent directors.

Subject to the consent of all independent directors, independent directors may independently engage external auditors and advisers, with relevant fees paid by the Company, to review and provide advice on specific matters.

If the proposals set out above are not adopted or such functions and powers as set forth above cannot be exercised under normal circumstances, the Company shall disclose the relevant circumstances.

The criteria for determining a "material connected transaction" shall be interpreted by reference to the relevant rules and regulations of the CSRC, the SZSE, and the SEHK."

(27) Amendment to "Article 130"

Existing Article 130: "Independent directors shall express their independent opinion with respect to major matters of the Company.

Apart from the duties set forth above, independent directors shall also express their independent opinion on the following major matters to the board of directors or at a shareholders' general meeting:

- (1) nomination or removal of directors;
- (2) appointment or removal of senior officers;
- (3) the remuneration of directors and senior officers;
- (4) existing or new loans or other financial transactions between the Company and its shareholders, persons exercising de facto control over the Company and their affiliates, which exceed RMB3 million or 5% of the Company's most recently audited net asset value, and whether the Company has taken effective measures to recover the borrowings;
- (5) matters which the independent directors believe may impair the rights and interests of minority shareholders;
- (6) any other matters required by the Articles of Association.

Independent directors shall give one of the following opinions in relation to the above matters: (1) agree; (2) qualified opinion and reasons therefor; (3) oppose and reasons therefor; (4) unable to form an opinion and the impediments to doing so.

If the matter is a matter requiring disclosure, the Company shall announce the opinions of the independent directors. If the independent directors are divided and are unable to provide a unanimous opinion, the board of directors shall separately disclose the opinions of each independent director. The relevant announcement shall be published in newspapers which are in compliance with the relevant regulations."

Replacement article: "Independent directors shall express their independent opinion with respect to major matters of the Company.

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Apart from the duties set forth above, independent directors shall also express their independent opinion on the following major matters to the board of directors or at a shareholders' general meeting:

- (1) nomination or removal of directors;
- (2) appointment or removal of senior officers;
- (3) the remuneration of directors and senior officers;
- (4) where the board of directors fails to produce its profit distribution plan by cash;
- (5) matters which the independent directors believe may impair the rights and interests of minority shareholders;
- (6) any other matters which the CSRC, SZSE and SEHK requires independent directors to issue an independent opinion;
- (7) any other matters required by the Articles of Association.

Independent directors shall give one of the following opinions in relation to the above matters: (1) agree; (2) qualified opinion and reasons therefor; (3) oppose and reasons therefor; (4) unable to form an opinion and the impediments to doing so.

If the matter is a matter requiring disclosure, the Company shall announce the opinions of the independent directors. If the independent directors are divided and are unable to provide a unanimous opinion, the board of directors shall separately disclose the opinions of each independent director. The relevant announcement shall be published in newspapers which are in compliance with the relevant regulations."

[28] Insertion of "Article 140"

New Article 140: "An independent director shall attend the meetings of the board of directors as scheduled, have an understanding of the production and operation of the Company, and take

initiative to conduct investigation and obtain information necessary for decision-making. Independent directors shall submit their report to the annual general meeting of the Company, describing the discharge of their duties."

[29] Insertion of "Article 141"

New Article 141: "The Company shall establish a system of work for independent directors with the secretary of the board of directors actively assisting the independent directors as to the fulfillment of their duties. The Company shall ensure that an independent director has the same rights to information as other directors, and shall provide independent directors with relevant materials and information in a timely manner, report on the performance of the Company regularly and, when necessary, arrange for independent directors to conduct on-site investigations."

[30] Amendment to "Article 131"

Existing Article 131: "The Company shall establish a board of directors. The board of directors shall consist of 16 directors, including 1 Chairman, 2 Vice-chairmen and 6 independent directors."

Replacement article: "The Company shall establish a board of directors. The board of directors shall consist of 14 directors, including 1 Chairman, 2 Vice chairmen and 5 independent directors."

[31] Amendment to paragraph 4 of "Article 132"

Existing fourth paragraph of Article 132: "The Company shall comply with the following requirements when determining matters relating to the provision of a guarantee in favour of a third party as set out in sub-paragraph (17) of the first paragraph hereof:

- (1) With respect to matters relating to the provision of a guarantee in favour of a third party considered by the board of directors, an affirmative vote of not less than two-thirds of all members of the board of directors shall be obtained

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therefor; with respect to matters relating to the provision of a guarantee in favour of a third party considered at a shareholders' general meeting, the board of directors shall prepare a proposal related thereto and submit the same to the shareholders' general meeting for approval.

- (2) The Company shall neither provide guarantee for a controlling shareholder and any other connected party, unit without legal person status or individual who or which have a shareholding in the Company of not more than 50 per cent (50%) nor for an entity which directly or indirectly is subject to a gearing ratio of over seventy per cent (70%). The total amount of guarantees provided by the Company in favour of third parties shall not exceed fifty per cent (50%) of the net asset value recorded on the consolidated accounting statement for the most recent accounting year.
- (3) Where a guarantee is provided in favour of a third party, the listed company must request the other party to provide a counter-guarantee and the party providing the counter-guarantee shall have actual capacity to do so."

Replacement paragraph (2): "The Company shall neither provide a guarantee in favour of a controlling shareholder or any other connected persons, unit without legal person status or individual who or which have a shareholding in the Company of not more than 50%, nor for an entity which directly or indirectly is subject to a gearing ratio of over 70%. The maximum amount of any single guarantee provided by the Company in favour of third parties shall not be more than 5% of the net asset value recorded on the consolidated financial statements for the most recent financial year; the maximum accumulated amount of guarantees provided by the Company to any one party shall not be more than 10% of the net asset value recorded on the consolidated financial

statements for the most recent financial year and the total amount of guarantees provided by the Company in favour of third parties shall not exceed 50% of the net asset value recorded on the consolidated financial statements for the most recent financial year."

(32) Amendment to "Article 162"

Existing Article 162: "The supervisory committee shall be composed of 7 members. The supervisory committee shall have 1 Chairman. Each supervisor shall serve for a term of 3 years, which term is renewable upon re-election and re-appointment."

Replacement article: "The supervisory committee shall be composed of 5 members. The supervisory committee shall have 1 Chairman. Each supervisor shall serve for a term of 3 years, which term is renewable upon re-election and re-appointment."

(33) Amendment to "Article 163"

Existing Article 163: "The supervisory committee shall be composed of four (4) shareholders' representatives who shall be elected or removed by the shareholders' general meeting and three (3) employee representatives of the Company who shall be elected or removed by the employees democratically."

Replacement article: "The supervisory committee shall be composed of two (2) shareholders' representatives who shall be elected or removed by the shareholders' general meeting and three (3) employee representatives of the Company who shall be elected or removed by the employees democratically."

The election of shareholders' representatives as supervisors shall be in form of a cumulative voting system. The requirements set out in the fourth paragraph of Article 125 hereof concerning the adoption of cumulative voting system for the election of directors shall apply to the election of shareholders' representatives as supervisors."

NOTICE OF 2004 ANNUAL GENERAL MEETING

[34] Amendment to “Article 172”

Existing Article 172: “A supervisor may resign before the expiration of his term of office. The provisions set out in Chapter 10 of the Articles of Association in relation to the resignation of directors shall be applicable to supervisors.”

Replacement Article: “A supervisor may resign before the expiration of his term of office by giving a written report to the Board of Directors. The provisions set out in Chapter 10 of the Articles of Association in relation to the resignation of directors shall be applicable to supervisors.”

[35] Deletion of “Article 208”

Existing Article 208: “When distributing dividends to shareholders, the Company shall withhold and pay on behalf of the shareholders the taxes payable on the dividends in accordance with the provisions of the PRC tax law.”

[36] Amendment to “Article 212”

Existing Article 212: “At the time of distributing profits to the shareholders, the Company shall withhold according to law the taxes payable on the dividend income received by the shareholders.”

Replacement article: “At the time of distributing profits to the shareholders, where the Company is required to withhold and pay on behalf of the shareholders such taxes payable on the dividends in accordance with the provisions of the relevant tax laws and regulations, the Company shall withhold, according to the law, the taxes payable on the dividend income received by the shareholders.

If any shareholder breaches the laws by using such funds of the Company, the Company shall deduct the amount from the cash dividends payable to that shareholder until the amount is recovered.”

[37] Insertion of “Article 277”

New Article 277: “Pursuant to the requirements of the Articles of

Association, the board of directors shall formulate both the *Rules of Procedure for Shareholders’ General Meetings* and *Rules of Procedure for Meetings of the Board of Directors* which shall not contravene the provisions of the Articles of Association and shall constitute appendices to Articles of Association after consideration and approval at the shareholders’ general meeting.

The supervisory committee shall formulate the *Rules of Procedure for Supervisory Committee Meetings* pursuant to, and not in contravention of, the Articles of Association and shall constitute an appendix to the Articles of Association upon consideration and approval at the shareholders’ general meeting.”

[38] The relevant sections, articles/sub-articles and cross-references to articles contained in these Articles of Association shall be renumbered in accordance with the above amendments.

The original Articles 60 to 63 shall be renumbered Articles 62 to 65, the original Articles 64 to 91 shall be renumbered Articles 67 to 94, the original Articles 92 to 95 shall be renumbered Articles 96 to 99, the original Articles 96 to 99 shall be renumbered Articles 102 to 105, the original Articles 100 to 106 shall be renumbered Articles 107 to 113, the original Articles 107 to 130 shall be renumbered Articles 116 to 139, the original Articles 131 to 207 shall be renumbered Articles 142 to 218, the original Articles 209 to 266 shall be renumbered Articles 219 to 276, and the original Articles 267 to 270 shall be renumbered Articles 278 to 281.

12. To consider and, if thought fit, pass the following resolution as a special resolution:

“**THAT** the amendments to the *Rules of Procedure for Shareholders’ General Meetings* of ZTE Corporation be and are hereby approved. [These amendments are made pursuant to the above amendments to the Articles of Association, and the amendments will not be inconsistent with the provisions of relevant laws and the Articles of Association. For details of the amended *Rules of Procedure*

NOTICE OF 2004 ANNUAL GENERAL MEETING

for Shareholders' General Meetings of ZTE Corporation, please refer to the CSRC designated information disclosure website (<http://www.cninfo.com.cn>)”

13. To consider and, if thought fit, pass the following resolution as a special resolution:

“**THAT** the amendments to the *Rules of Procedure for Board of Directors' Meetings of ZTE Corporation* be and are hereby approved. (These amendments are made pursuant to the above amendments to the Articles of Association, and the amendments will not be inconsistent with the provisions of relevant laws and the Articles of Association. For further details on the *Rules of Procedure for Board of Directors' Meetings of ZTE Corporation*, please refer to the CSRC designated information disclosure website (<http://www.cninfo.com.cn>)”

14. To consider and, if thought fit, pass the following resolution as a special resolution:

“**THAT** the amendments to the *Rules of Procedure for Supervisory Committee Meetings of ZTE Corporation* be and are hereby approved. (These amendments are made pursuant to the above amendments to the Articles of Association, and the amendments will not be inconsistent with the provisions of relevant laws and the Articles of Association. For further details on the *Rules of Procedure for of Supervisory Committee Meetings of ZTE Corporation*, please refer to the CSRC designated information disclosure website (<http://www.cninfo.com.cn>)”

Note:

Important Matters

In relation to the election of two shareholder representatives as supervisors at the AGM (that is, resolutions 10.5 and 10.6 above), the cumulative voting system shall be adopted. When making an election, one share represents 2 votes. Each shareholder may give all or part of his votes to one single candidate or to both candidates, provided that sum of his separated votes do not exceed the total number of votes he holds. A candidate must have more than half of all votes at the AGM to be elected as supervisor of the Company.

3. Registration at the AGM

(1) Registration of attendance

1. Any legal person shareholder (including but not limited to

corporate shareholders) entitled to attend the AGM shall produce to the register with a duplicate of its corporate business license, a duly signed power of attorney and the ID card of attendee.

2. Any individual shareholder entitled to attend the AGM shall produce for registration his own ID card, stock account card and evidence of shareholding.
3. Any shareholder intending to attend the AGM shall confirm to the AGM registry by courier, registered mail or fax.

(2) Time of registration

From 8 May 2005 to 11 May 2005

(3) Address for registration

The address where registration is conducted is: 6/F, Block A, ZTE Building, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, PRC 518057.

(4) Requirements when registering and voting by way of proxy

1. Any shareholder entitled to attend and vote at the meeting may entrust one or more person (whether or not a shareholder) as his proxy(ies) to attend and vote at the meeting on his behalf. The shareholder may attend and vote at the meeting in person notwithstanding that he has completed and submitted the proxy form; in such a case, the proxy form is deemed withdrawn. For a shareholder who entrusts two or more proxies, the voting rights shall not exceed the total number of votes the shareholder is entitled to exercise at the meeting, that is, any one share may not be voted by different proxies.
2. A shareholder appointing a proxy or his duly authorized attorney shall sign the proxy form in writing. The proxy form shall be notarized if it is to be signed by an authorized

NOTICE OF 2004 ANNUAL GENERAL MEETING

attorney other than by the shareholder himself. The proxy form is valid only if it is deposited not less than 24 hours at the registered address of the Company before the AGM.

3. If a shareholder entrusts his proxy(ies) to attend and vote at the meeting on behalf of him, such proxy(ies) shall produce for registration his own ID card, the duly signed proxy form, the stock account card of shareholder and evidence of shareholding.

4. Miscellaneous

- (1) It is expected that the AGM will take less than one day; all accommodation, travel and expenses relating to attending the meeting shall be borne by the attendees.
- (2) AGM Contact: Li Liuhong
- (3) Contact telephone number:
+ 86 755 26770285
- (4) Contact fax number:
+ 86 755 26770286

5. Reference

Resolutions of the Twelfth Meeting of the Third Session of the Meeting of the Board of ZTE Corporation

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC
11 April 2005

Appendix 1:

Resumes of Candidates for Supervisors

Mr. Qu Deqian, aged 43, is currently the Deputy General Manager of Shenzhen Zhongxing WXT Equipment Company, Ltd which is the largest shareholder of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, the largest shareholder of the Company. From 1997 to 2003, Mr. Qu was the Chief of the Accounting and Auditing Centre of the Company and Deputy Chief of the Financial Centre. Mr. Qu graduated from the Shanxi Economics Institute with a Bachelor's degree in Statistics in June 1992 and further obtained the qualification of senior accountant in the PRC in October 1994. Mr. Qu has no interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register referred therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and The Stock Exchange of Hong Kong Limited. Save as disclosed above, Mr. Qu has no relationship with any Director, senior management or substantial shareholders of the Company.

Ms Wang Yan, aged 40, is currently the Deputy General Manager and Chief Accountant of Shenzhen Zhongxing WXT Equipment Company, Ltd, which is the largest shareholder of the Company. Ms Wang graduated from the Department of Management and Industrial Accounting of Northeast Industrial Institute in July 1988 with a Bachelor's degree in engineering. Ms Wang was qualified as an accountant in the PRC in December 1992 and further obtained the qualification of senior accountant in the PRC in September 1999. Ms Wang has no interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO), or are required, pursuant to section 352 of the SFO, to be entered in the register referred therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and The Stock Exchange of Hong Kong Limited. Save as disclosed above, Ms Wang has no relationship with any Director, senior management or substantial shareholders of the Company.

AUDITOR'S REPORT

Shenhua (2005) Gushenzi No. 029

To the members of ZTE Corporation:

We have audited the accompanying consolidated balance sheets and the balance sheets of ZTE Corporation (hereinafter referred to as the "Company") as at 31 December 2004, the consolidated income statements and the statements of income distribution, income statements and the statements of income distribution of the Company for the year then ended and consolidated statements of cash flows and the statements of cash flows of the Company for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Independent Auditing Standards for Certified Public Accountants in PRC. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the financial statements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above conform with the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" promulgated by the People's Republic of China and present fairly, in all material respects, the financial position of the Company as at 31 December 2004 and the results of its operations and its cash flows for the year then ended.

Shenzhen Dahua Tiancheng Certified Public Accountants

Shenzhen China

Wu Jianhui
Certified Public Accountants of China

Liu Yaohui
Certified Public Accountants of China

10 April 2005

BALANCE SHEETS

[Prepared under PRC GAAP]

As at 31 December 2004

[All amounts in RMB'000 unless otherwise stated]

[English Translation for Reference Only]

ASSETS	Notes	31 Dec, 2004		31 Dec, 2003	
		Group	Company	Group	Company
Current assets					
Cash in banks and on hands	1	7,598,223	6,463,165	3,785,022	2,769,109
Notes receivable	2	2,258,088	2,240,530	2,639,966	2,638,983
Dividends receivable		-	1,371	-	851
Accounts receivable	3	3,652,506	4,016,330	2,155,169	2,470,098
Other receivables	4	257,595	738,183	368,287	713,150
Accounts prepaid	5	145,398	58,380	147,039	95,989
Inventories	6	4,643,758	4,808,259	4,704,396	4,838,409
Deferred expenses		478	-	2,489	990
Total current assets		18,556,046	18,326,218	13,802,368	13,527,579
Long-term investment					
Long-term equity investments	7	67,176	2,992,995	33,986	1,601,994
Fixed assets					
Fixed assets - cost	8	2,725,769	1,877,501	2,346,524	2,108,082
Less: accumulated depreciation	8	793,323	469,997	593,885	515,631
Net fixed assets		1,932,446	1,407,504	1,752,639	1,592,451
Less: impairment loss recognized	8	94,980	87,002	-	-
Fixed assets - net book value	8	1,837,466	1,320,502	1,752,639	1,592,451
Construction in progress	9	114,677	98,100	20,615	14,908
Total fixed assets		1,952,143	1,418,602	1,773,254	1,607,359
Intangible and other assets					
Intangible assets	10	146,214	94,358	143,015	89,728
Long-term prepaid expenses	11	23,785	13,376	14,332	12,909
Total intangible and other assets		169,999	107,734	157,347	102,637
Deferred taxes					
Deferred taxes assets	12	104,625	76,419	66,414	66,414
TOTAL ASSETS		20,849,989	22,921,968	15,833,369	16,905,983

Legal
representative:

Hou Weigui

Person in charge of
accounting function:

Wei Zaisheng

Person in charge of
accounting department:

Yu Yong

[The accompanying notes form an integral part of these financial statements.]

BALANCE SHEETS

(Prepared under PRC GAAP)

AS AT 31 DECEMBER 2004

(All amounts in RMB'000 unless otherwise stated)

[English Translation for Reference Only]

LIABILITIES AND OWNER'S EQUITY	Notes	31 Dec, 2004		31 Dec, 2003	
		Group	Company	Group	Company
Current liabilities					
Short-term loans	13	405,695	340,344	876,811	644,903
Notes payable		1,422,401	1,453,282	1,280,453	1,281,931
Accounts payable	14	2,919,483	5,295,321	3,114,297	4,366,707
Advances from customers	15	2,630,721	2,455,494	2,362,730	2,031,945
Accrued payroll		1,031,464	663,925	712,791	646,328
Welfare benefits payable		437,786	362,467	375,213	352,831
Proposed dividends		40,921	920	63,611	4,054
Taxes payable	16	52,459	(175,111)	21,780	(205,251)
Other levies		13,197	900	7,653	303
Other payables	17	698,727	1,078,453	491,685	880,059
Accrued expenses	18	268,534	248,486	332,312	317,890
Anticipated liability	19	20,000	20,000	-	-
Long-term loans maturity within 1 year	20	16,900	-	273,000	273,000
Total current liabilities		9,958,288	11,744,481	9,912,336	10,594,700
Long-term liabilities					
Long-term loans	21	1,025,263	950,000	759,900	679,000
Specific payables	22	227,320	177,800	123,475	106,835
Other long-term liabilities		-	-	-	-
Total long-term liabilities		1,252,583	1,127,800	883,375	785,835
Total liabilities		11,210,871	12,872,281	10,795,711	11,380,535
Minority interest:					
Minority interest		464,679	-	227,244	-
Owner's equity:					
Share capital	23	959,522	959,522	667,296	667,296
Capital surplus	24	5,491,658	5,515,822	2,106,043	2,113,920
Surplus reserve	24	985,356	650,718	624,091	476,376
of which: statutory welfare reserve	25	252,006	202,836	214,053	164,884
Undistributed profits	26	1,495,431	2,682,269	1,221,165	2,067,667
Balance for foreign currency translation		2,592	1,476	(8,370)	-
Declared cash dividends		239,880	239,880	200,189	200,189
Total owner's equity		9,174,439	10,049,687	4,810,414	5,525,448
TOTAL LIABILITIES AND OWNER'S EQUITY		20,849,989	22,921,968	15,833,369	16,905,983

Legal
representative:
Hou Weigui

Person in charge of
accounting function:
Wei Zaisheng

Person in charge of
accounting department:
Yu Yong

[The accompanying notes form an integral part of these financial statements.]

INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION

[Prepared under PRC GAAP]

For the year ended 31 December 2004

[All amounts in RMB'000 unless otherwise stated]

[English Translation for Reference Only]

Items	Notes	2004		2003	
		Group	Company	Group	Company
1. Revenue from main operations	27	22,698,153	21,572,945	16,036,035	15,286,887
Less: Cost of main operations	27	14,369,106	16,285,819	10,292,956	11,353,182
Taxes and levies on main operations	28	70,912	55,427	28,925	15,844
2. Profit from main operations		8,258,135	5,231,699	5,714,154	3,917,861
Add: Profit from other operations	29	41,339	160,095	59,771	59,676
Less: Selling and distribution expenses		2,929,110	2,852,561	2,084,300	1,994,668
General and administrative expenses		3,899,003	1,952,482	2,602,649	1,627,669
Finance expense – net	30	284,978	256,903	292,595	276,085
3. Operating profit		1,186,383	329,848	794,381	79,115
Add: Investment income	31	(3,669)	1,149,900	(6,855)	993,030
Subsidy income	32	378,698	38,179	128,873	81,627
Non-operating income	33	18,041	7,486	33,634	27,051
Less: Non-operating expenses	34	160,637	152,878	71,849	61,760
4. Total profit		1,418,816	1,372,535	878,184	1,119,063
Less: Income tax		207,935	210,252	116,758	44,790
Minority interest		202,011	-	57,298	-
5. Net profit		1,008,870	1,162,283	704,128	1,074,273
Add: Undistributed profits, beginning of the year		1,221,165	2,067,667	880,857	1,354,724
6. Appropriated profit		2,230,035	3,229,950	1,584,985	2,428,997
Less: Statutory common reserve		240,843	116,228	109,086	107,427
Statutory public welfare fund		120,422	58,114	54,545	53,714
7. Profit available for distribution to equity owners		1,868,770	3,055,608	1,421,354	2,267,856
Less: Proposed ordinary shares dividends		239,880	239,880	200,189	200,189
Ordinary shares dividends converted to shares		133,459	133,459	-	-
8. Undistributed profits		1,495,431	2,682,269	1,221,165	2,067,667

Legal
representative:
Hou Weigui

Person in charge of
accounting function:
Wei Zaisheng

Person in charge of
accounting department:
Yu Yong

[The accompanying notes form an integral part of these financial statements.]

INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION

(Prepared under PRC GAAP)

Supplemental information

Items	for the year 2004	for the year 2003
1. Gains on sales or disposal of segments or associated companies	-	-
2. Losses on natural disaster	-	-
3. Increased/decreased total profit arising from changes of accounting policies	-	-
4. Increased/decreased total profit arising from changes of accounting estimate	(238,637)	-
5. Losses on debt restructured	-	-
6. Others	-	-

Legal
representative:
Hou Weigui

Person in charge of
accounting function:
Wei Zaisheng

Person in charge of
accounting department:
Yu Yong

(The accompanying notes form an integral part of these financial statements.)

CASH FLOW STATEMENTS

[Prepared under PRC GAAP]

For the year ended 31 December 2004

[All amounts in RMB'000 unless otherwise stated]

[English Translation for Reference Only]

Items	2004	
	Group	Company
1. Cash flows from operating activities		
Cash received from sale of goods or rendering services	23,200,614	21,978,079
Cash received from taxes returned	369,663	29,444
Cash received relating to other operating activities	184,514	100,510
Sub-total of cash inflow	23,754,791	22,108,033
Cash paid for goods and services	15,560,704	16,082,179
Cash paid to and on behalf of employees	2,278,869	1,367,834
Payments of taxes and levies	1,490,169	705,936
Cash paid relating to other operating activities	2,780,430	2,498,971
Sub-total of cash outflow	22,110,172	20,654,920
Net cash flows from operating activities	1,644,619	1,453,113
2. Cash flows from investing activities		
Cash received from disinvestment	95,213	-
Cash received from gains of investment	2,619	2,516
Net cash received from disposal of fixed, intangible and other long-term assets	990	136
Sub-total of cash inflow	98,822	2,652
Cash paid to acquire fixed, intangible and other long-term assets	542,178	423,726
Cash paid from investment	122,976	225,645
Cash paid relating to other investing activities	85	-
Sub-total of cash outflow	665,239	649,371
Net cash flow from investing activities	(566,417)	(646,719)
3. Cash flows from financing activities		
Cash received from shareholders' investment	3,540,417	3,504,747
Cash received from borrowings	2,775,971	1,286,924
Cash received relating to other financing activities	31,112	30,859
Sub-total of cash inflow	6,347,500	4,822,530
Cash repayments of amounts borrowed	3,237,824	1,593,483
Cash payments for distribution of dividends and interest expenses	344,042	310,361
Cash payments for decrease of registered capital	-	-
Cash paid relating to other financing activities	33,227	32,500
Sub-total of cash outflow	3,615,093	1,936,344
Net cash flow from financing activities	2,732,407	2,886,186
4. Effect of foreign exchange rate changes on cash	2,592	1,476
5. Net increase in cash and cash equivalents	3,813,201	3,694,056

CASH FLOW STATEMENTS

(Prepared under PRC GAAP)

For the year ended 31 December 2004

(All amounts in RMB'000 unless otherwise stated)

[English Translation for Reference Only]

Items	2004	
	Group	Company
1. INVESTING AND FINANCING ACTIVITIES NOT INVOLVED IN CASH		
Capital converted from liabilities	-	-
Convertible bond maturity within 1 year	-	-
Financial leased fixed assets	-	-
2. Reconciliation of net profit to cash flows from operating activities		
Net profit	1,008,870	1,162,283
Add: Minority interest	202,011	-
Provision for assets impairment	1,166,771	1,136,149
Depreciation of fixed assets	307,691	207,105
Amortization of intangible assets	53,928	35,204
Amortization of long-term prepaid expenses	6,359	3,852
Decrease in prepaid expenses	2,011	990
Increase in accrued expenses	(54,963)	(72,421)
Losses on disposal of fixed, intangible and other long-term assets	84	(136)
Losses on retirement of fixed assets	43,785	40,338
Finance expense	151,182	129,822
Losses on investment	9,367	(1,162,936)
Deferred taxes creditor	(38,211)	(10,005)
Decrease in inventories	(419,693)	1,060,307
Decrease in operating receivable items	(1,483,439)	(2,972,220)
Increase in operating payable items	688,866	1,894,781
Others	-	-
Net cash flows from operating activities	1,644,619	1,453,113
3. Net increase in cash and cash equivalents		
Cash at end of year	7,598,223	6,463,165
Less: Cash at beginning of year	3,785,022	2,769,109
Add: Cash equivalents at end of year	-	-
Less: Cash equivalents at beginning of year	-	-
Net increase in cash and cash equivalents	3,813,201	3,694,056

Legal
representative:
Hou Weigui

Person in charge of
accounting function:
Wei Zaisheng

Person in charge of
accounting department:
Yu Yong

(The accompanying notes form an integral part of these financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 1. COMPANY BACKGROUND

The Company is a joint-stock limited company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Co., Limited, Hunan Nantian (Group) Company, Limited, Shaanxi Shunda Communications Corporation (now renamed Shaanxi Telecommunications Industrial Company), No.7 Research Institute of Post, Telegraphs & Telephones Ministry (郵電部第七研究所) (now renamed China Mobile Telecommunications No.7 Research Institute), Jilin Posts and Telecommunications Equipment Company and Hebei Telecommunications Equipment Company, Limited and incorporated through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No.452 and Document Zheng Jian Fa Zi No.453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued within the network 58,500,000 ordinary shares with a par value of RMB1.00 per share through the Shenzhen Stock Exchange and issued 6,500,000 ordinary shares with a par value of RMB1.00 per share to its employees at an issue price of RMB6.81 per share.

In 2003, Shenzhen Zhaoke Investment Development Co., Limited transferred all its shares in the Company to Shenzhen Gaotejia Venture Investment Co., Limited. The time of the share transfer was already more than three years from the date of establishment of the Company and was therefore in compliance with the applicable provision under the Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Co., Limited transferred all its shares in the Company to Fortune Trust & Investment Co., Ltd.

On 11 November 1997, the Company was registered and established upon approval by Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 4403011015176 (revised), and was issued a Corporate Business License (license no.: Shen Si Zi N35868). Scope of operations: production of remote control switch systems, multi-media communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardwares and softwares, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labours and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state-controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized sub-contracting of telecommunications projects.

On 18 November 1997, the 58,500,000 ordinary shares publicly issued by the Company to the general public were listed and traded on the Shenzhen Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 1. COMPANY BACKGROUND (continued)

On 11 September 1998, as approved by Document Shen Zheng Ban Fu (1998) No.72 issued by the Securities Administration Office of Shenzhen, the Company increased its capital by a total of 75,000,000 shares by way of an issue of 3 shares transferred from its capital surplus reserves as at 30 June 1998 for every 10 shares. Thereupon the Company's registered capital was increased to RMB325,000,000.

On 27 May 1999, pursuant to the consent under Document Shen Zheng Ban Zi (1999) No.78 issued by the Securities Administration Office of Shenzhen and the approval under Document Zheng Jian Gong Si Zi (1999) No.42 issued by China Securities Regulatory Commission, the Company placed 19,500,000 ordinary shares to the public shareholders. The placing was completed on 18 August 1999. Thereupon the Company's registered capital was increased to RMB344,500,000.

On 20 May 2000, pursuant to the approval at the Company's shareholders' meeting, the Company increased its capital by a total of 68,900,000 shares by way of an issue of 2 shares transferred from its capital surplus reserves as at 31 December 1999 for every 10 shares. Thereupon the Company's registered capital was increased to RMB413,400,000.

On 20 March 2001, as approved under Document Zheng Jian Gong Si Zi (2001) No.25 issued by China Securities Regulatory Commission, the Company issued an additional of 50,000,000 ordinary shares to the public at an issue price of RMB32.70 per share. Thereupon the Company's registered capital was increased to RMB463,400,000.

On 16 October 2001, pursuant to the approval at the Company's shareholders' meeting, the Company increased its capital by a total of 92,680,000 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 30 June 2001. Thereupon the Company's registered capital was increased to RMB556,080,000.

On 25 April 2003, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 112,216,000 shares by way of an issue of 2 shares transferred from its capital surplus reserves as at 31 December 2002 for every 10 shares. Thereupon the Company's registered capital was increased to RMB667,296,000.

On 17 May 2004, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 133,459,200 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 31 December 2003. Thereupon the Company's registered capital was increased to RMB800,755,000. The alteration formalities for industrial and commercial registration have been completed.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 1. COMPANY BACKGROUND (continued)

On 9 December 2004, pursuant to a resolution adopted at the Company's second temporary shareholders' meeting and the provision under the revised Articles of Association, and upon approval under Document Guo Zi Gai Ge [2004] No.865 issued by State-owned Assets Supervision and Administration Commission of the State Council and verification and approval under Document Zheng Jian Guo He Zi [2004] No.38 issued by China Securities Regulatory Commission, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), of which 158,766,450 new shares were issued by the Company and 1,384,590 shares were sold by the Company's state-owned corporate shareholders. The Company's registered capital after alteration was RMB959,522. As at 10 January 2005, based on our examination and verification, the proceeds raised by the Company amounted to HKD3,523,323 (equivalent to RMB3,734,722) (translated at the fixed exchange rate for HKD to RMB of 1:1.06). After deducting the expenses related to the issue amounted to RMB161,685 as well as RMB30,859, being the amount went to the National Social Insurance Fund generated from the reduction in the number of state-owned corporate shares held by the corporate holders of state-owned shares, the Company actually injected an additional capital of RMB3,542,178 (all being monetary funds), of which RMB158,767 were increased share capital, while RMB3,383,411 were credited to capital reserves. Accordingly, the Company's registered capital increased to RMB959,522, and the alteration formalities for industrial and commercial registration have been completed.

NOTE 2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

- (1) **The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the "Accounting System for Business Enterprises" as promulgated by the Central Government of the People's Republic of China.**
- (2) **Accounting year:**
The Company's accounting year starts on 1 January and ends on 31 December each year.
- (3) **Reporting currency for accounting:**
The reporting currency of the Company for accounting is Renminbi.
- (4) **Recording basis and valuation principle:**
The financial statements of the Company are prepared on an accrual basis. Assets are initially recorded at actual costs at the time of acquisition.
- (5) **Foreign currency transactions:**
Transactions denominated in foreign currency are translated into RMB at the market exchange rates prevailing at the beginning of the year. Year-end balances of foreign currency in monetary items are adjusted at the market exchange rates prevailing at the balance sheet date. Exchange differences arising from these translations are expensed in which they arise and are included in the value of acquired assets before the same may be put into working conditions.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(6) Translation for financial statements denominated in foreign currency:

Items set out in the balance sheets are translated into RMB using the mid-point rate of the market exchange rates prevailing at the balance sheet date. Owner's equity items other than "undistributed profits" are translated into RMB using the market exchange rates prevailing at the time when the items arise. The item "undistributed profits" is stated at the amount of such item as set out in the the statements of income distributions, which translation has been done. Differences in the aggregate amount of the items under assets and liabilities and shareholders' equity after the translations are reflected under the "translation differences of foreign currency statements" added after "undistributed profits" in the balance sheets. The balance standing at the beginning of the year is stated at the amount set out in the previous year's balance sheets, which translation has been done.

Items reflecting amounts incurred as set out in the profits and the statements of income distributions are translated into RMB using the average exchange rates prevailing during the accounting period. "Net profit" in the the statements of income distributions is stated at the amount of such item as set out in the profits statement, which translation has been done. The item "undistributed profits at the beginning of the year" in the the statements of income distributions is stated at the amount set out under the previous year's "undistributed profits" at the end of the period for which translation has been done. The item "undistributed profits" in the the statements of income distributions is calculated and stated at the amounts set out under each of the other items in the the statements of income distributions, which translation has been done. Actual amounts recorded in the previous year are stated at the amounts as set out in the profits statement and the statements of income distributions for the previous reporting period for which translation has been done.

(7) Recognition of cash equivalents:

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with short maturities of within three months when acquired and that are subject to an insignificant risk of change in value, including short-term bonds investment available for circulation in the securities market with maturities of within three months when acquired.

(8) Short-term investments:

Short-term investments are recognized at the actual price paid when acquired less any cash dividends or interests declared to be distributed and any cash dividends or interests received are deducted from the investment costs.

Short term investments at the balance sheet date are valued at the lower of investment costs and market value for the provision of impairment of short-term investments.

(9) Recognition of bad debts:

Recognition of bad debts: The bad debt is determined as such when the debtor is bankrupt or dead, and the proceeds from the bankrupt's estates or the decreased property are unable to cover the debt; or the debtor fails to repay the overdue debt for more than three years with plain evidences to indicate his inability to do so.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(9) Recognition of bad debts: (continued)

Bad debts are recognized using the allowance method pursuant to which provision for bad debts is made for period-end balance of accounts receivable (less the amounts due from related parties) using the aging analysis method and to make provision for bad debts or expenses against accounts receivable and other receivables in different percentages according to the financial and cash flows status of the debtors; carrying balance of accounts prepaid that is expected to be uncollectible is transferred into other receivables and provision for bad debts is made according to the nature and months overdue except for debtors recognized individually according to their financial position and cash flows.

Provision for bad debts of accounts receivable are calculated on the net amount of accounts receivable at period end (less the amounts due from related parties) after deducting the amounts that are proved to be collectible by reliable evidences on the following basis:

Ageing	Percentage of provision
1-6 months	–
6-12 months	15%
12-18 months	50%
18-24 months	75%
Above 24 months	100%

Provision for expenses on other receivables are made as follows:

Ageing	Percentage of provision	Remark
1-2 months	–	
Above 2 months	100%	Applicable to other receivables arising from domestic operations
2-3 months	–	Applicable to other receivables arising from overseas operations
3-4 months	58%	Applicable to other receivables arising from overseas operations
4-5 months	75%	Applicable to other receivables arising from overseas operations
5-6 months	92%	Applicable to other receivables arising from overseas operations
Above 6 months	100%	Applicable to other receivables arising from overseas operations

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(9) Recognition of bad debts: (continued)

Provision for bad debts on accounts prepaid are made as follows:

Ageing	Percentage of provision	Remark
1-6 months	–	Applicable to all accounts prepaid
6-12 months	–	Applicable to accounts prepaid in purchasing of fixed assets
6-12 months	50%	Applicable to accounts prepaid in purchasing of raw materials
12-24 months	75%	Applicable to accounts prepaid in purchasing of raw materials
12-24 months	50%	Applicable to accounts prepaid in purchasing of fixed assets
Above 24 months	100%	Applicable to all accounts prepaid

As to those accounts receivable that are uncollectible or believed to be hardly collectible as proved by conclusive evidences, specific provision for bad debts is made against those accounts receivable.

Please see Note 3.2 for further details of changes in the accounting estimates of provision for bad debts.

(10) Inventories:

The inventories of the Company include raw materials, work-in-progress, finished goods, materials for construction-in-progress and materials sub-contracted for processing, etc. All inventories are recorded at their actual costs upon acquisition and recognized using the weighted moving average method when issued. Inventories are valued using the perpetual inventories system. Low-value consumables are amortized using the “one-off amortization method” upon incurring.

Provision for inventories are recognized at the end of accounting period. When recognizing the provision for inventories, the inventories are further classified into categories of system products (Including raw materials, work-in-progress, materials for construction-in-progress and dispatch goods, etc) and categories of terminal products (Including raw materials, work-in-progress, finished goods, etc). The cost and net realizable value of inventories are normally recognised by categories under which the provision for inventories.

At the end of the period, the carrying values of all mouldy stocks or expired stocks with no transferred value or stocks that are no longer required in production process as well as stocks that are sufficiently proved to be of no use value and transferred value are transferred into gains or losses for the current period for reducing the amount of provision for inventories.

Please see Note 3.2 for further details of changes in the accounting estimates for provision for inventories.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

[11] Long-term investments:

1) Long-term equity investments

a. Valuation of long-term equity investments

Equity investments are valued at the initial investment cost at the time of acquisition.

b. Difference in equity investments

Equity investments are valued at the initial investment cost when it is accounted for under the equity method. Difference in equity investments refers to the difference between the initial investment cost and the owner's equity in the investee company as well as the difference between the investment cost and the owner's equity in the investee company where equity investments is accounted for under the equity method instead of the cost method. The respective differences are treated as follows:-

The difference that the initial investment cost exceeds the owner's equity in the investee company is amortized by equal installments over a period of not more than 10 years;

The difference that the initial investment cost is lower than the owner's enjoyable equity which was formed before 10 April 2003 was included in the difference of equity investments and amortized by equal installments over a period of not less than 10 years;

The difference that the initial investment cost is lower than the owner's equity which was formed after 10 April 2003 is reckoned into capital reserve-provision for equity investments.

c. Recognition of return on investments

The cost method is used in accounting for long-term equity investments where the parent company has no control or joint-control or significant influence over the investee company. Investments in the investee company in which the parent company holds more than 20% (including 20%) of the equity interest, or over which the parent company exerts significant influence notwithstanding its investments account for less than 20% of the equity interest, are accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

1) Long-term equity investments (continued)

c. Recognition of return on investments (continued)

Where the cost method is used in accounting, the return on investments is recognized when cash dividends are declared to be distributed by the investee company, provided that the return on investments is calculated to the extent of the appropriated amount of accumulated net profit so received, which are generated after the investee company accepted investment by the parent company. Any portion of the cash dividends declared to be distributed by the investee company to the parent company in excess of the aforesaid amount is treated as write back of initial investment cost to reduce the carrying value of investments; Where the equity method is used in accounting, on the basis of the net gains or losses generated after the acquisition of a stake in the investee company, investment gains or losses are recognized in the proportion of any net gains realized or net losses incurred by the investee company for the period that shall be enjoyed or shared as at the end of the accounting period and adjustment is made to the carrying value of the long-term equity investment. Upon disposal of a long-term equity investment, the difference between the carrying amount of the investment and net disposal proceeds shall be treated as gains or losses on investment for the period.

2) Long-term bond investments

a. Valuation of long-term bond investments

Investment in bonds is valued at the actual cost at the time of acquisition.

b. Amortization of premium or discount of long-term bond Investments

Premium or discount of long-term bond investments refers to the difference between the actual cost and the nominal value of the bonds. The premium or discount of bonds is amortized on a straight-line basis within the bond-holding period upon confirmation of related income from bond interest.

c. Recognition of return on long-term bond investments

Income from bond interest is calculated and recognized at the nominal value and nominal interest rates for the period. Income for the current period is recognized at the adjusted amount after the amortization of premium or discount of investment in bonds on a straight-line basis. Interest receivable of other bonds Investments calculated for the period is recognized as return on investments for such period. Upon disposal of a long-term bond Investment, the difference between the net disposal proceeds and carrying amount of the investment shall be treated as gains or losses on investments for the period.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

3) Provision for impairment of long-term investments

At the end of the period, examination is made for each of the long-term investments measured at the lower of the book value and the recoverable amount. Provision for long-term investments impairment shall be made for each individual item in accordance with the difference of the recoverable amount less than the book value of the long-term investments due to declining market value or the worsening of the business operation in the investee company.

(12) Fixed assets and accumulated depreciation:

Fixed assets refer to physical assets of higher unit value spanning over useful lives of more than one year. Fixed assets of the Company are valued at actual cost. Depreciation of fixed assets is calculated on a straight-line basis by equal installments with the annual depreciation rates being determined based on the type, historical cost, estimated useful lives, and residual value (5% of the historical cost) of the fixed assets as follows:—

Asset type	Useful lives	Annual depreciation rates
Buildings (excluding temporary plants)	30 years	3.17%
Buildings – temporary plants	3 years	31.67%
General equipment (excluding electronic equipment)	10 years	9.5%
General equipment – electronic equipment	5 years	19%
Specific equipment	5 years	19%
Motor vehicles	10 years	9.5%
Other equipment	5 years	19%

At the end of the period, in the case that the recoverable value of fixed assets is lower than their carrying value by virtue of backward technology, damages, or being left unused for a long period of time, provision for fixed asset impairment shall be made in accordance with the difference between its recoverable value and carrying value and shall be included in the gains or losses for the period. Provision for fixed asset impairment is made for each individual asset.

Please see Note 3.2 for further details of changes in the accounting estimates for the useful lives in relation to fixed assets depreciation.

(13) Construction-in-progress:

Construction-in-progress is valued using the actual cost method. Until such time as the assets are completed and put into operational use, construction-in-progress is recognized as a fixed asset, and the capitalization of interest shall cease thereupon.

Upon the overall examination at the end of the period, provision for construction-in-progress impairment shall be made in the event that an impairment of construction-in-progress has occurred with plain evidences to indicate that (1) construction has stopped already and is estimated not to be restarted in the next 3 years; (2) economic return on the construction-in-progress is ultimately uncertain with inferior construction quality and backward technology; (3) impairment has occurred under other circumstances. Such provision shall be determined at the difference between the carrying value of a particular construction-in-progress over its net realizable value.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(14) Intangible assets

Intangible assets are valued at the actual cost at the time of acquisition.

Intangible assets are amortized by equal installments over its estimated useful lives commencing from the month for the acquisition of the intangible assets which shall be accounted for in the expenses. Provided the estimated useful lives exceeds the beneficial period stipulated by the related contract or the effective period stipulated by applicable laws, the amortization period for the intangible assets shall be determined not exceeding the shorter of the beneficial period and the effective period. If there is no explicit stipulation as to the beneficial period in the related contract or the effective period under applicable laws, the amortization period shall not exceed 10 years.

Upon the overall examination at the end of the period, provision for intangible assets shall be made in the event the recoverable amount of the intangible assets is lower than its carrying value under the following circumstances: (1) the intangible asset has been replaced by other new technologies, exerting material negative impact on its economic return to the Company; (2) market price of an intangible asset for the period drops sharply and that a recovery is not expected to be seen during the rest of the amortization period; (3) an intangible asset which legal protection period has expired but still retains some values in use; (4) impairment has occurred under other circumstances with plain evidences. Such provision shall be determined at the difference between the carrying value of a particular intangible asset over its realizable amount.

(15) Long-term prepaid expenses:

Organization expenses: to be expensed for the first month of production and operation of the company.

Other long-term prepaid expenses to be amortized: to be accounted for on the actual amount incurred and amortized by equal installments over the beneficial period of the project. Where no economic return is expected in the accounting period ahead, the remaining value of long-term prepaid expenses shall be accounted for over the period.

(16) Recognition of revenue:

Sales of communications systems construction: when evidence exists that the total revenue and total cost can be measured reliably, and the amounts related to the transactions will flow to the Company, the operating revenue is recognized and the cost is carried forward correspondingly by estimating the progress of completion based on the stage of completion of the contract activities or the actual cost incurred under the construction contract as a percentage of the estimated total cost of the contract.

Sales of goods: the operating revenue is recognized at one or several times when the significant risk in connection with the ownership of the product and the payment have been transferred to the buyer so that the Company no longer has custody and control over the product; the income from the sales or the voucher of the payment has been received, and that the cost in relation to the product sale can be measured accurately.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 2. MAJOR ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

(16) Recognition of revenue: (continued)

Supply of labour service: the revenue from labour service is recognized when the supply of labour service has been completed within one accounting year since its commencement; when evidence exists that the total revenue and total cost of labour service can be measured reliably, the amounts related to the transactions will flow to the Company, and the stage of completion of the labour service can be confirmed reliably, even the commencement and completion of the labour service spans over one accounting year, the revenue can be recognized according to the percentage of completion.

Please see Note 3.2 for further details of changes in and effects of the accounting estimates for recognition progress of sales revenue from communications systems construction.

(17) Recognition of anticipated liabilities

Obligations related to contingencies that fulfill all the following conditions are recognized by the Company as liabilities: such obligation represents an obligation currently undertaken by the Company; it is probable that performance of such obligation will lead to outflow of economic benefits from the Company; the amount of such obligation can be measured reliably.

(18) Accounting of income tax:

The Company adopts tax-effect accounting method and adopts the liability method in case of changes in the income tax rates.

Please see Note 3.1 for further details of changes in the accounting policies for income tax and the effects therefrom.

(19) Basis of consolidation:

Consolidated financial statements of the Group are properly prepared in accordance with the provision under the Provisional Regulations Governing Consolidated Financial Statements and Reply to the Request on the Scope of Financial Statements Consolidation Document Cai Kuai Er Zi (96) No.2 formulated by Ministry of Finance, whereby: consolidation is prepared by consolidating the amounts under the respective items based on the individual financial statements and other related information of the Company and of the respective units included in the scope of consolidation. All the material intra-group transactions and balances have been eliminated on consolidation. Minority interests are calculated and stated respectively.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS

1. Changes of accounting policies

Pursuant to the relevant requirements of Document Zheng Jian Kuai Ji Zi (2001) No. 60, the Company adopts the tax-effect accounting method under the requirements of the Hong Kong GAAP Accounting Standards in the tax accounting policy adopted for the financial statements prepared for the issue of H shares. Accordingly, the income tax accounting policy under the financial statements of A shares of the Company shall change from tax payable method to tax-effect accounting method. With the approval of the seventh meeting of the third session of the Board of Directors, the Company's accounting policy on income tax changed to tax-effect accounting method effective on 1 January 2004. The Company made retrospective adjustments to the financial statements of 2003 and of prior years.

With the change in accounting policy, the Company's net profit in 2004 increased by RMB40,752 and the net assets as at 31 December 2004 increased by RMB122,954; the net profit for 2003 increased by RMB46,290 and the net assets as at 31 December 2003 increased by RMB82,202 and the retained earning prior to the year of 2003 increased by RMB35,912.

2. Changes of accounting estimates

(1) Changes in accounting estimates in the method of provision for bad and doubtful debts (net of amount due from related parties)

To ensure the comparability of the Company's accounting information and having considered the level of provision for bad debts of internationally renowned peer companies, the seventh meeting of the third session of the Board of Directors, pursuant to the accounting principle of prudence, determined that the Company shall make the following changes to the method of provision for bad and doubtful debts effective 1 January 2004:

A. Changes in the method of provision for bad and doubtful debts

Before the change:

The bad and doubtful debts are provided on the basis of the closing balance of each period end under the ageing analysis and the details are as follows:

Ageing	Percentage of provision
Within one year	0.5%
1 – 2 years	3%
2 – 3 years	5%
Over 3 years	10%

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

2. Changes of accounting estimates (continued)

(1) Changes in accounting estimates in the method of provision for bad and doubtful debts (net of due from related parties) (continued)

A. Changes in the method of provision for bad and doubtful debts (continued)

After the change:

The bad and doubtful debts are provided on the basis of the closing balance net of the recoverable amount with certainty of each period end under the ageing analysis and the details are as follows:

Ageing	Percentage of provision
1 – 6 months	–
6 – 12 months	15%
12 – 18 months	50%
18 – 24 months	75%
Over 24 months	100%

As a result of the change in these accounting estimates, the Company's net profit in 2004 decreased by RMB346,470 and the net assets as at 31 December 2004 decreased by RMB346,470.

B. Changes in the method of the provision for other receivables.

Before the change:

Ageing	Percentage of provision
1 – 6 months	0.5%
6 – 12 months	50%
Over 1 year	100%

After the change:

Ageing	Percentage of provision
1 – 2 months	0 (applicable to all other receivables)
Over 2 months	100% (applicable to other receivables arising from domestic operations)
2 – 3 months	0 (applicable to all other receivables arising from overseas operations)
3 – 4 months	58% (applicable to other receivables arising from overseas operations)
4 – 5 months	75% (applicable to other receivables arising from overseas operations)
5 – 6 months	92% (applicable to other receivables arising from overseas operations)
Over 6 months	100% (applicable to other receivables arising from overseas operations)

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

2. Changes of accounting estimates (continued)

(1) Changes in accounting estimates in the method of provision for bad and doubtful debts (net of due from related parties) (continued)

B. Changes in the method of the provision for other receivables. (continued)

As a result of the change in these accounting estimates, the Company's net profit in 2004 decreased by RMB126,776 and the net assets as at 31 December 2004 decreased by RMB126,776.

C. Changes in the method of the provision for bad debts for accounts prepaid

Before the change:

The balance of the accounts prepaid for goods purchased which is expected to be irrecoverable shall be transferred to other receivables and the method for appropriation is the same as the method adopted in the provision for bad debts of other receivables.

After the change:

The balance of the accounts prepaid for goods purchased which is expected to be irrecoverable shall be transferred to other receivables and the provision of which shall be based on the ageing analysis of individual account and the details are as follows:

Ageing	Percentage of provision
1 – 6 months	0 (applicable to accounts prepaid for the acquisition of fixed assets)
6 – 12 months	0 (applicable to accounts prepaid for the acquisition of fixed assets)
6 – 12 months	50% (applicable to accounts prepaid for the acquisition of raw materials)
12 – 24 months	75% (applicable to accounts prepaid for the acquisition of raw materials)
12 – 24 months	50% (applicable to accounts prepaid for the acquisition of fixed assets)
Over 24 months	100% (applicable to all accounts prepaid)

As a result of the change in these accounting estimates, the Company's net profit in 2004 increased by RMB7,299 and the net assets as at 31 December 2004 increased by RMB7,299.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

2. Changes of accounting estimates (continued)

(2) Changes in accounting estimates in the provision for inventories

To ensure the comparability of the Company's accounting information and having considered the level of value impairment of inventories of internationally renowned peer companies, the seventh meeting of the third session of the Board of Directors, pursuant to the accounting principle of prudence, determined that the Company shall make the following changes to the method of provision for inventories with effective on 1 January 2004:

Before the change:

To provide for provision for inventories on the basis of the lower of costs or the net realizable value of each category of inventories and to estimate the net realizable value of all inventories on the basis of the market price of each category of inventories or its related products.

After the change:

To provide for provision of Inventories on the basis of the lower of costs or the net realizable value. For inventories with duration around the average normal turnover of the industry, an estimate will be made on the market price of each category of inventories or its related products. For inventories with duration longer than the average normal turnover of the industry, full provision for inventories will be made on the basis of book value.

As a result of the changes in these accounting estimates, the Company's net profit in 2004 decreased by RMB246,898 and the net assets as at 31 December 2004 decreased by RMB246,898.

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(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

2. Changes of accounting estimates (continued)

(3) Changes in the accounting estimates on the useful lives for depreciation of fixed assets

Pursuant to the requirements on the statutory useful lives of the temporary buildings of the State and Shenzhen Municipal, with the approval of the seventh meeting of the third session of the Board of Directors, the years used for depreciation of the Company's temporary buildings for the workshop of handsets shall be changed from 30 years to 3 years, effective on 1 January 2004.

Based on the evaluation of economic useful lives of electronic equipment and with the approval of the seventh meeting of the third session of the Board of Directors, the years for depreciation for electronic facilities for the general equipment changed from 10 years to 5 years, effective 1 January 2004.

As a result of the change in these accounting estimates, the Company's net profit in 2004 decreased by RMB21,315 and the net assets as at 31 December 2004 decreased by RMB21,315.

(4) Change in the accounting estimate method in respect of estimating the work progress for telecommunications systems contracts

The Company adopted the common practice of international companies in the trade, matching with the existing situation of the Company in the management of telecommunications system contracts and related risk control, it was confirmed that the work progress estimate method similar to progress payment previously used can no longer reflect reasonably the actual operations of the Company.

With the approval of the seventh meeting of the third session of the Board of Directors, commencing from 1 January 2004, the estimate method in respect of revenue recognised for telecommunication system contracts changed from the method of estimating the work progress by progress payment as previously adopted to the method of estimating the work progress on the basis of the status of project completed or the percentage of the actual cost incurred to total costs. After the adjustment, the Company's overall progress payment realized would be better comparable with the actual operations of the Company for the period.

As a result of the change in these accounting estimates, the Company's net profit in 2004 increased by RMB434,818 and the net assets as at 31 December 2004 increased by RMB434,818.

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[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

3. Rectification of accounting errors

(1) Errors in the provision for maintenance of equipment

The Company will generally provide customers with a period of free maintenance of the equipment in the sales of construction of telecommunications system. Prior to 1 January 2004, the Company's provision for maintenance was under-estimated by RMB157,386. The Company made retrospective adjustments to the accounting errors on accrual basis for the period.

As result of the rectification of such accounting error, the Company's net profit in 2003 decreased by RMB56,560 and the net assets as at 31 December 2003 decreased by RMB133,778 and the net assets for the years prior to 2003 decreased by RMB77,218.

(2) Errors in the provision for wages and salary payable and welfare benefits payable

The Company has under-estimated the wages expenses for the period prior to 1 January 2004. The Company made retrospective adjustments to the accounting errors on accrual basis for the period.

As a result of the rectification of such accounting error, the Company's net profit in 2003 decreased by RMB28,119 and the net assets as at 31 December 2003 decreased by RMB78,333 and the net assets for the years prior to 2003 decreased by RMB50,214.

(3) Rectification of accounting errors in relation to specific grants

In 2000, the Company received specific grants of RMB80,000 made within the State's financial budget, with China Aerospace Science and Technology Corporation as the representative of the contributor of the State's capital funds and entitled to the related interest thereof. As the Company has become a listed company and was unable to represent the interest of the contributor as required in Document Guo Ji (1999) No. 2252, therefore according to the accounting method of "Grants for specific purposes received from the State by an enterprise". The grants were accounted for in the profit and loss account in 2002. During the period, the Company noted such error with prudence in accounting treatment and the financial statements for the prior years have been adjusted accordingly.

As a result of the rectification of such accounting error, the Company's net profit prior to 2003 decreased by RMB80,000 and the net assets in 2003 decreased by RMB80,000.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 3: CHANGES OF ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS (continued)

4. Details on the impacts of changes in accounting policies and accounting estimates and of accounting errors

Item		Impact on the opening balance of net assets in 2004	Impact on the net profit for 2004	Impact on the net assets as at 31 December 2004
Changes in accounting policies	Changes in accounting policy for income tax	82,202	40,752	122,954
Changes in accounting estimates	Changes in method of the provision for accounts receivables	-	(346,470)	(346,470)
	Changes in the method of the provision for other receivables	-	(126,776)	(126,776)
	Changes in the method of the provision for accounts prepaid	-	7,299	7,299
	Change in the method of the provision for inventories	-	(246,898)	(246,898)
	Change in the useful lives for depreciation of fixed assets	-	(21,315)	(21,315)
	Changes in accounting estimates in respect of revenue recognised using percentage of completion method for telecommunication system contracts	-	434,818	434,818
	Subtotal	-	(299,342)	(299,342)
Rectification of accounting errors	Adjustments to accounting errors of maintenance costs	(133,778)	-	-
	Wages and salary and benefits payable	(78,333)	-	-
	Accounting for specific grants	(80,000)	-	-
	Subtotal	(292,111)	-	-
Total		(209,909)	(258,590)	(176,388)

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All amounts in '000, unless as otherwise stated

NOTE 4: TAXATION

The principal tax and tax rate applicable to each units of the consolidated financial statements is as follows:

Item	Basis for calculation of tax	Tax rate
Value-added tax	Sales revenue for domestic produced products	17%
Value-added tax	Maintenance of equipment	17%
Business tax	Leasing revenue	3%, 5%
Urban maintenance and construction tax	VAT, business tax	7%, 1%
Additional contribution to education	VAT, business tax	3%
Price adjustment and control fund* 1	Business tax	1.5%
Enterprise income tax* 2	Taxable income	7.5%, 15%, 33%
Individual income tax	Taxable income	Excessive progressive rate

* 1 "Price adjustment and control fund" refers to the amount payable by Shanxi Zhongxing Telecom Equipment Company, Limited pursuant to the requirements of "Notice for perfecting the management work for the collection of price adjustment and control fund" (Document Jin Zhen Fa (1995) No. 71) issued by the People's Government of Shanxi. Pursuant to the requirements, any unit and individual which generate a revenue for the production operations engaged in Shanxi shall make contribution to the price adjustment and control fund, calculated at 1.5% of sales tax, value-added tax and business tax.

* 2 The Company was registered in Shenzhen SEZ and the applicable enterprise income tax rate is 15%.

Pursuant to the permission under the "Reply of Exemption of Corporate Income Tax entitled by ZTE Kangxun Telecom Company, Limited" issued by the local tax bureau in Shenzhen (Document Shen Di Fa (2001) No. 1030), the Company was awarded the status of high-tech enterprise in August 2001, and the Company is entitled to a 50% reduction for enterprise income tax for another three years (2002-2004) and the enterprise income tax rate for the year is 7.5%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Yan Jian Mian (2005) No. 004) issued by the Shenzhen State Tax Bureau, it is agreed that ZTE Microelectronics Technology Co. Ltd., as a enterprise, is entitled to enterprise income tax exemption in the first and second profitable year and is entitled to 50% reduction in enterprise income tax from the third to fifth year. The current year is the first profitable year and is exempted for enterprise income tax.

Pursuant to the "Requirements on the tax policy of State's high-tech Industrial Development Zone", Shanxi Zhongxing Telecom Equipment Company, Limited is subject to an enterprise income tax rate of 15%.

The enterprise income tax rate applicable to ZTEIC Design Co., Ltd. is 15%, and it is entitled to the preferential treatment of "Two waive; Three half" commencing from the first profitable year and the Company has not yet made any profit.

Wuxi Zhongxing Optoelectronics Technologies Company, Limited was registered at Wuxi State's High-tech Industrial Development Zone, it is subject to an enterprise income tax rate of 15%.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 4: TAXATION (continued)

Pursuant to the regulations under Document Ke Gao (2002) No. 21 issued by the Science and Technology Department of Anhui, the Finance Department of Anhui, the Regional Tax Bureau of Anhui, Anhui Wantong Posts and Telecommunications Company, Limited is entitled to the enterprise income tax preferential treatment as enjoyed by high-tech enterprises. The enterprise income tax is subject to refund and the tax rate and the refund rate of which are 33% and 18% respectively and the actual tax rate is 15%.

Pursuant to the Approval Notice for Deduction and Exemption of Tax (Document Shen Guo Shui Nan Zi (2005) No. 0034) issued by the Nanshan State Tax Bureau in Shenzhen, it is agreed that Shenzhen ZTE Software Company, Limited, as a software enterprise, is entitled to enterprise income tax exemption in the first and second profitable year and the current year is the second profitable year and is exempted for enterprise income tax.

Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited and Nanjing Zhong Xing Software Development Technology Co., Ltd. are subject to an enterprise income tax rate of 33%.

ZTE Mobile Tech Co., Ltd., Shenzhen Guoxing Electronics Development Company Limited, Shenzhen Zhongxing Special Equipment Company, Limited, ZTE Integration Telecom Ltd., Shenzhen Changfei Investment Company, Limited, Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited and Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd. are subject to an enterprise income tax rate of 15%.

Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited and Guangdong New Pivot Technology & Service Company, Limited are subject to an enterprise income tax rate of 33%.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Kangxun Telecom Co., Ltd.	Shenzhen	RMB50,000	90%	-	90%	RMB45,000	Manufacture of electronics products and related parts (excluding restricted items)	Yes
ZTE MicroelectronicsTechnology Co. Ltd.	Shenzhen	RMB15,000	-	90%	90%	RMB13,500	Design, manufacture and sale of integrated circuit products	Yes
Shanxi Zhongxing Telecom Equipment Company, Limited	Taiyuan	RMB8,000	51%	-	51%	RMB4,080	Development of science & technology, development of computer softwares and hardwares; integration of computer network systems; subcontracting maintenance and training of technical services; manufacture and sale of communications equipment	Yes
Zhongxing Telecom Pakistan (Private) Limited	Islamic Republic of Pakistan	PKR10,000	93%	-	93%	USD200	Assembling and manufacture of digital remote control switch	Yes
Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd.	Shenzhen	RMB10,000	90%	10%	100%	RMB10,000	Research, manufacture and sale of CDMA digital mobile communications system equipment and related products	Yes
ZTEIC Design Co., Ltd.	Shenzhen	RMB50,000	60%	-	60%	RMB30,000	Design, development, manufacture and operation of all kinds of integrated circuits and related electronics application products	Yes
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	Yangzhou	RMB6,000	65%	-	65%	RMB3,900	RSD, manufacture and sale of electronics, computer and communications products	Yes

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All amounts in '000, unless as otherwise stated

NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Mobile Tech Co., Limited	Shenzhen	RMB33,333	95%	—	95%	RMB31,666	Technical development and sale of communications products; manufacture of handset batteries, hands-free ear piece; manufacture of handset charger	Yes
Congo-Chine Telecom S.A.R.L.	The Democratic Republic of Congo	USD9,800	51%	—	51%	USD5,000	Construction of telephone network in Congo, provision of telecom services and manufacture of communications equipment	Yes
Nanjing Zhong Xing Software Development Technology Co., Ltd.	Nanjing	USD7,231	81%	—	81%	RMB25,560	Development, manufacture and sale of software products, communications equipment, data equipment and provision of related services	Yes
Shenzhen Zhongxing Software Company, Limited	Shenzhen	RMB50,000	90%	—	90%	RMB45,000	Development, manufacture and sale of all kinds of communications equipment system drivers, softwares for the service sector, and provision of technical consultation	Yes
Shenzhen Guoxin Electronics Development Company, Limited	Shenzhen	RMB13,000	90%	10%	100%	RMB33,000	Purchase and sale of electronics components; domestic businesses, supply and sale of materials; promotion of a variety of industries	Yes
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Wuxi	RMB10,000	65%	—	65%	RMB5,200	Development of optoelectronics technologies and manufacture and sale of related products and provision of technical services	Yes

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All amounts in '000, unless as otherwise stated

NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
Shenzhen Force Science and Technology Company, Limited	Shenzhen	RMB3,000	-	80%	52%	RMB2,400	Development of optoelectronics technologies and manufacture and sale of related products and provision of technical services	Yes
WuXi KaiEr Science and Technology Company, Limited	Wuxi	RMB10,000	-	35%	22.75%	RMB5,200	R&D and manufacture of optoelectronics products, development of optoelectronics technologies, sale of self-produced products and provision of related services	No
Anhui Wantong Posts and Telecommunications Company, Limited	Hefei	RMB22,214	51%	-	51%	RMB15,697	Manufacture of communications wireline equipment and accessories, PDF and switch equipment, manufacture and installation of towers, and design and installation of communications projects	Yes
Anhui Wantong Information System Integration Company, Limited	Hefei	RMB3,000	-	51%	26.01%	RMB1,530	Design and installation of communications projects	Yes
Anhui Wantong Tower Installation Company, Limited	Hefei	RMB2,000	-	90%	45.9%	RMB1,800	Installation of towers	Yes
ZTE (H.K.) Limited	Hong Kong	HKD50,000	100%	-	100%	HKD50,000	Procurement and sale of communications products and provision of technical services	Yes
Bestel Communications ID.	Republic of Cyprus	CYP300	-	50%	50%	CYP150	Sale of communications products and provision of after-sale services	No

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Portugal Co., Ltd	Portugal	EUR050	-	100%	100%	EUR050	Sale of communications products and provision of after-sale services	Yes
Beijing Zhongxing Telecom Ltd.	Beijing	RMB5,000	50%	-	50%	RMB2,500	Sale of communications equipment (excluding radio transmitter), electronics computer and related external devices, and provision of technical consultation services	No*
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Beijing	RMB5,000	-	70%		RMB3,500	Development, consultation, and assignment of intelligent transportation technologies and provision of related services and trainings	No
ZTE (USA) Inc.	Edison, United States of America	USD20	100%	-	100%	USD650	Sale of communications products	Yes
ZTE Future Tel Co., Ltd.	Republic of Korea	KRW427,550	54.14%	-	54.14%	USD3,250	Development of handset products and design and research of integrated circuit	Yes
Shenzhen Special Equipment Company, Limited	Shenzhen	RMB1,000	54%	-	54%	RMB540	Technical development, services, consultation and purchase and sale of communications products	Yes
Telrise (Cayman) Tel Co., Ltd.	Cayman Islands	USD50	52.85%	-	52.85%	USD1,900	R&D of softswitch technologies	Yes
Telrise (USA) INC.	Cayman Islands	USD1,609	-	100%	52.85%	USD1,609	R&D of softswitch technologies	Yes
Telrise Nanjing Telecom Limited	Nanjing	USD100	-	100%	52.85%	USD100	R&D of softswitch technologies	Yes

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE (UK) Ltd.	London, United Kingdom	GBP400	51%	-	51%	USD372	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Do Brasil LTDA.	Brazil	BRL3,500	100%	-	100%	USD900	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Holdings (Thailand) CO., Ltd	Thailand	THB100	49%	-	49%	THB49	Investment holding	Yes**
ZTE (Thailand) CO., Ltd	Thailand	THB2,000	49%	51%	100%	THB980	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Corporation De Mexico	Mexico	USD5	100%	-	100%	USD28	Sale of communications products and provision of after-sale services and technical support	Yes
ZTE Integration Telecom Ltd.	Shenzhen	RMB55,000	75%	5%	80%	RMB41,250	Research and manufacture, production and sale of digital integrated system products and provision of related consultation services	Yes
ZTEIT USA Inc.	United States of America	USD950	-	100%	100%	USD475	Design and development of all kinds of communications products	Yes
ZTE-Communication Technologies, Ltd.	Russia	USD50	100%	-	100%	USD950	Sale of communications products and provision of after-sale services and technical support	Yes

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE Wistron Telecom AB	Sweden	SEK100	100%	-	100%	USD3,137	Operation of telecommunications related businesses as R&D base and technical support platform of the sector	Yes
Shenzhen Changfei Investment Company, Limited	Shenzhen	RMB30,000	51%	-	51%	RMB15,300	Investment and promotion of industries, and sale of electronics and communications parts and components	Yes
Shenzhen Lead Communications Company, Limited	Shenzhen	RMB10,000	-	62.5%	31.88%	RMB6,250	Sale of electronics products, communications products, apparatus and instruments and related accessories	Yes
Shenzhen Ruide Electronic Industrial Company, Limited	Shenzhen	RMB8,700	-	63.22%	32.24%	RMB5,500	Manufacture and sale of handset accessories; sale of electronics products; operation of I/E businesses	Yes
Shenzhen Kanguan Electromechanical Company, Limited	Shenzhen	RMB16,000	-	57.5%	29.33%	RMB9,200	Manufacture and sale of handset case and accessories; purchase and sale of electromechanical products; self operation of I/E businesses	Yes
Shanghai Xingfei Science and Technology Company, Limited	Shanghai	RMB1,000	-	80%	40.8%	RMB800	Four skill services of the electronics products sector; manufacture, sale and after-sale services of electronics products, and corporate management consultation (subject to license where a license is required)	Yes

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
Shenzhen Zhongxing Xinyu FPC Company, Limited	Shenzhen	RMB11,000		9%		RMB2,500	Development, manufacture and sale of single-layered, double-layered, multi-layered and rigid-flexible relexible printed integrated circuits; I/E of goods and technologies (excluding items prohibited and restricted under the laws, constitutions and as decided by the State Council)	No
Shenzhen Weigao Semiconductor Company, Limited	Shenzhen	RMB10,000		40%		RMB4,000	Development, design and sale of semi-conductor circuit package; domestic business and supply of materials and resources (excluding franchised, state-controlled and monopolized merchandises and restricted items); promotion of industries (separate declaration is required for specific items)	
Shenzhen ZhongxingTelecom Equipment Technology & Service Company, Limited	Shenzhen	RMB50,000	90%	10%	100%	RMB50,000	Technical development of computer networks, softwares, electronics equipment and communications products; domestic supply and sale of materials and resources; information consultancy	Yes

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited	Shanghai	RMB10,000	51%	—	51%	RMB5,100	R&D of communications technologies, design, research, development, manufacture and sale of softwares and hardwares for communications products and provision of related technical services	Yes
Guangdong New Pivot Technology & Service Company, Limited	Guangzhou	RMB5,000	90%	—	90%	RMB4,500	Development, design and integration of computer softwares and hardwares and data equipment, and sale and technical assignment of related products and provision of related services	Yes
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Beijing	RMB10,000	30%	—	30%	RMB3,000	Development and research manufacture of data centre and metropolitan/Campus networks integrated core software products	No
SunTop Technologies Ltd.	Cayman Islands	USD50	26.54%	—	26.54%	USD3	Within the scope as permitted under the laws of Cayman Islands	No
Closed Joint Stock Company TK Mobile	Tadzhikistan	USD4,000	51%	—	51%	RMB16,871	Manufacture of CDMA800 mobile voice and related value-added services, maintenance of CDMA telecom networks and provision of consultation services	Yes
ZTE Kangxun Telecom Company India (Private) Ltd.	India	USD22,222	100%	—	100%	RMB1,654	Assembling and integration of telecom systems equipment and terminal equipment in India; investment in and establishment of local manufacturing joint-venture	Yes

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

Full name of controlling subsidiaries and jointly-controlled entities	Place of registration	Registered capital	Percentage of equity interests owned by the Company			Investment by the Company	Principal activities	Included in scope of consolidation
			Direct	Indirect	Effective			
ZTE ROMANIA SRL	Romania	USD100	100%	-	100%	RMB827	Sale and marketing of the Company's products in Romania and provision of corresponding engineering, after-sale services, technical support, consultation and trainings	Yes
ZTE MALAYSIA CORPORATION SDN. BHD.	Malaysia	USD60	100%	-	100%	RMB496	Sale and marketing of the Company's products in Malaysia and provision of corresponding engineering, after-sale services, technical support, consultation and trainings	Yes
ZiMax (Cayman) Holding Ltd.	Cayman Islands	USD2,500	100%	-	100%	RMB20,675	R&D investment in all kinds of communications products	Yes
KAZNURTEL Limited Liability Company	Kazakhstan	USD3,000	49%	-	49%	RMB1,013	Manufacture and sale of telecom equipment and provision of corresponding technical support, after-sale services, trainings and consultation; installation and construction of CDMA450MHzVLL and provision of corresponding telecom services and value-added services	No

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

1. Particulars of subsidiaries controlled by the Company and jointly-controlled entities and scope of consolidation (continued)

- * During the period, the Company had not exercised effective control over Beijing Zhongxing Telecom Ltd., therefore the company had not been included in the scope of consolidation for the financial statements. As its impact on the consolidated financial statements was relatively insignificant, during the period, no adjustment had been made to the balance at the beginning of the period.
- ** The Company holds a 49% stake in ZTE Holdings (Thailand) Co. Ltd, however, as covenanted under the articles of association of the company, another shareholder of the company is a holder of preference shares and has no operation or administrative rights over the company. Pursuant to Reply to the Request on the Scope of Financial Statements Consolidation Document Cai Kuai Er Zi (1996) No.2 issued by Ministry of Finance, the company is included in the scope of consolidation of the Company based on the effective control principle.

2. Changes in the scope of consolidation during the period:

Company name		Change	Reason
Shenzhen Changfei Investment Company, Limited	*1	Increase	Newly incorporated
Shenzhen Lead Communications Company, Limited	*2	Increase	Stake acquisition, capital increase
Shenzhen Ruide Electronic Industrial Company, Limited	*3	Increase	Newly incorporated
Shenzhen Kangquan Electromechanical Company, Limited	*4	Increase	Stake acquisition, capital increase
Shenzhen ZhongxingTelecom Equipment Technology & Service Company, Limited	*5	Increase	Newly incorporated
Shanghai ZhongxingTelecom Equipment Technology & Service Company, Limited	*6	Increase	Newly incorporated
Guangdong New Pivot Technology & Service Company, Limited	*7	Increase	Newly incorporated
ZTEIT USA Inc.	*8	Increase	Newly incorporated
Closed Joint Stock Company TK Mobile	*9	Increase	Newly incorporated
ZTE Kongxun Telecom Company India (Private) Ltd.	*10	Increase	Newly incorporated
ZTE ROMANIA SRL	*11	Increase	Newly incorporated
ZTE MALAYSIA CORPORATION SDN. BHD.	*12	Increase	Newly incorporated
ZiMax (Cayman) Holding Ltd.	*13	Increase	Newly incorporated
Beijing Zhongxing Telecom Ltd.	*14	Decrease	Effective control unexercised

- *1 In February 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Shenzhen Changfei Investment Company, Limited. Registered capital of the company is RMB30,000, in which the Company made a cash contribution of RMB15,300 and holds a 51% stake in the shares of the company. Shenzhen Changfei Investment Company, Limited was duly established on 6 February 2004.

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

2. Changes in the scope of consolidation during the period: (continued)

- *2 On 25 March 2004, Shenzhen Changfei Investment Company, Limited a subsidiary of the Company, signed an agreement with the shareholders of Shenzhen Lead Communications Company, Limited, to acquire a 35% stake in Shenzhen Lead Communications Company, Limited for a cash consideration of RMB1,750 (costing method: the acquisition cost was calculated on an 1:1 basis based on the registered capital of Shenzhen Lead Communications Company, Limited of RMB5,000 as at the date of acquisition). In April 2004, Shenzhen Changfei Investment Company, Limited increased the capital of Shenzhen Lead Communications Company, Limited by RMB4,500 in cash; other shareholders of Shenzhen Lead Communications Company, Limited increased the capital of Shenzhen Lead Communications Company, Limited by RMB500 in cash. After the capital increase, the registered capital of Shenzhen Lead Communications Company, Limited has been changed to RMB10,000, in which Shenzhen Changfei Investment Company, Limited holds a 62.5% stake in its shares. The alteration formalities for industrial and commercial registration have been completed on 20 April 2004.
- *3 In April 2004, Shenzhen Changfei Investment Company, Limited and ZTEIC Design Co., Ltd., both being subsidiaries of the Company, invested to establish Shenzhen Ruide Electronic Industrial Company, Limited. Registered capital of the company is RMB8,700, in which Shenzhen Changfei Investment Company, Limited made a cash contribution of RMB5,000 and holds a 57.47% stake in the shares of the company; and ZTEIC Design Co., Ltd. made a cash contribution of RMB500 and holds a 5.75% stake in the shares of the company. Shenzhen Ruide Electronic Industrial Company, Limited was duly established on 27 April 2004.
- *4 On 20 March 2004, Shenzhen Changfei Investment Company, Limited a subsidiary of the Company, signed an agreement with the shareholders of Shenzhen Kangquan Electromechanical Company, Limited, to acquire a 20% stake in Shenzhen Kangquan Electromechanical Company, Limited for a cash consideration of RMB1,600 (costing method: the acquisition cost was calculated on an 1:1 basis based on the registered capital of Shenzhen Kangquan Electromechanical Company, Limited of RMB8,000 as at the date of acquisition). In April 2004, Shenzhen Changfei Investment Company, Limited increased the capital of Shenzhen Kangquan Electromechanical Company, Limited by RMB7,600 in cash; other shareholders of Shenzhen Kangquan Electromechanical Company, Limited increased the capital of Shenzhen Kangquan Electromechanical Company, Limited by RMB400 in cash. After the capital increase, the registered capital of Shenzhen Kangquan Electromechanical Company, Limited has been changed to RMB16,000, in which Shenzhen Changfei Investment Company, Limited holds a 57.5% stake in its shares. The alteration formalities for industrial and commercial registration have been completed on 15 June 2004.
- *5 On 7 April 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited. Registered capital of the company is RMB50,000, in which the Company made a cash contribution of RMB45,000 and holds a 90% stake in the shares of the company; and ZTE Kangxun Telecom Co., Ltd., a subsidiary of the Company, made a cash contribution of RMB5,000 and holds a 10% stake in the shares of the company. Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited was duly established on 17 May 2004.
- *6 In April 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited. Registered capital of the company is RMB10,000, in which the Company made a cash contribution of RMB5,100 and holds a 51% stake in the shares of the company. Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited was duly established on 10 May 2004.
- *7 In January 2004, the board of directors of the Company passed a resolution in relation to the investment in and establishment of Guangdong New Pivot Technology & Service Company, Limited. Registered capital of the company is RMB5,000, in which the Company made a cash contribution of RMB4,500 and holds a 90% stake in the shares of the company. Guangdong New Pivot Technology & Service Company, Limited was duly established on 27 February 2004.

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NOTE 5. CONTROLLING SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES (continued)

2. Changes in the scope of consolidation during the period: (continued)

- *8 On 2 December 2003, as approved pursuant to Document [2003] Shang He Pi No.482 issued by Ministry of Commerce, the People's Republic of China, ZTEIT USA Inc. was proposed to be established by ZTE Integration Telecom Ltd., a subsidiary of the Company, in the United States of America with its permitted total investment and registered capital both being USD950. ZTE Integration Telecom Ltd. will hold a 100% stake in the company. ZTE Integration Telecom Ltd. contributed the first installment in the amount of USD95 in June 2004. ZTEIT USA Inc. was duly established in June 2004.
- *9 As approved by the board of directors of the Company and pursuant to Certificate of Approval [2003] Shang He Qi Zheng Zi No.264 issued by Ministry of Commerce, the People's Republic of China and Document Shen Wai Jing Mao Jing [2003] No.155 issued by Bureau of Foreign Trade and Economic Cooperation of Shenzhen Municipality, Closed Joint Stock Company TK Mobile was proposed to be established by the Company in Tadjikistan with a registered capital of USD2,950 and a total investment of USD3,150, in which the Company intends to make a contribution by way of injecting CDMA800 equipment produced by the Company at a price of USD1,505 and hold a 51% stake in the company; another shareholder of the company intends to make a contribution by way of injecting the business license, office premise, and towers at a price of USD1,446 and hold a 49% stake in the company. TK MOBILE 股份有限公司 was duly established in July 2004.
- *10 As approved by the board of directors of the Company and pursuant to Documents Shen Fa Gai[2004] No.148 issued by Bureau of Economic and Trade of Shenzhen Municipality and Shen Wai Jing Mao Jing [2004] No.24 issued by Bureau of Foreign Trade and Economic Cooperation of Shenzhen Municipality, ZTE Kongxun Telecom Company India (Private) Ltd. was established by the Company in India with a registered capital of USD22 and a total investment of USD200, in which the Company intends to make a contribution of USD200 and hold a 99.99989% stake in the shares of the company; and ZTE Kangxun Telecom Co., Ltd., a subsidiary of the Company, intends to contribute USD0.22 and hold a 0.00011% stake in the shares of the company. ZTE Kongxun Telecom Company India (Private) Ltd. was duly established in July 2004.
- *11 As approved by the board of directors of the Company and pursuant to Documents [2004] Shang He Qi Zheng Zi No.321 issued by Ministry of Commerce, the People's Republic of China and Shen Zi Gong Wai Jing Han [2004] No.331 issued by Shenzhen Bureau of Trade and Industry, ZTE ROMANIA SRL was established by the Company in Romania with a registered capital of USD100 and a total investment of USD100, in which the Company has made a contribution of USD100 and holds a 100% stake in the shares of the company. ZTE ROMANIA SRL was duly established in August 2004.
- *12 As approved by the board of directors of the Company and pursuant to Documents Shen Fa Gai[2004] No.274 issued by Bureau of Economic and Trade of Shenzhen Municipality, Shen Mao Gong Wai Jing Han [2004] No.285 issued by Shenzhen Bureau of Trade and Industry and Shen Wai Guan [2004] No.50 issued by State Administration of Foreign Exchange Shenzhen Bureau, ZTE MALAYSIA CORPORATION SDN. BHD. was established by the Company in Malaysia with a registered capital of USD60 and a total investment of USD60, in which the Company has made a cash contribution of USD60 and holds a 100% stake in the shares of the company. ZTE MALAYSIA CORPORATION SDN. BHD. was duly established in July 2004.
- *13 As approved by the board of directors of the Company and pursuant to Documents [2004] Shang He Qi Zheng Zi No.166 issued by Ministry of Commerce, the People's Republic of China, Shen Wai Guan [2004] No.50 issued by State Administration of Foreign Exchange Shenzhen Bureau and Shen Zi Gong Wai Jing Han [2004] No.16 issued by Shenzhen Bureau of Trade and Industry, ZiMax (Cayman) Holding Ltd. was established by the Company in Cayman Islands with registered capital of USD2,500, in which the Company has made a total investment of USD2,500 and holds a 100% stake in the shares of the jointly-owned company. ZiMax (Cayman) Holding Ltd. was duly established in May 2004.
- *14 The company had not been included in the scope of consolidation for the financial statements as no effective control had been exercised over it during the period.

NOTES TO THE FINANCIAL STATEMENTS

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All amounts in '000, unless as otherwise stated

NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED)

Explanatory note 1. Cash in banks and on hands

Item		Balance at the end of the period			Balance at the beginning of the period		
		Original currency	Conversion rate	RMB equivalent	Original currency	Conversion rate	RMB equivalent
Cash	RMB	366	1.0000	366	749	1.0000	749
	HKD	353	1.0603	389	114	1.0657	122
	USD	1,625	8.2705	13,481	143	8.2767	1,187
	GBP	2	15.91	27	2	14.7100	33
	JPY	151	0.0807	11	24	0.0773	2
	NGN	-	-	-	280	0.0939	26
	CDF	15,018	0.0157	282	1,393	0.0317	44
	BRL	72	2.8899	224	77	2.8737	221
	PKR	456	0.1495	68	43	0.1441	6
	others			16			
	Sub-total			14,864			2,390
Bank deposits	RMB	2,081,252	1.0000	2,081,252	2,562,847	1.0000	2,562,847
	RUR	1,928	0.2996	578	-	-	-
	HKD	2,910,758	1.0603	3,086,167	63,085	1.0657	67,230
	USD	219,675	8.2750	1,815,532	116,636	8.2767	965,364
	JPY	308,288	0.0807	22,380	56,236	0.0773	4,347
	SEK	1,640	1.1290	1,852	836	1.1436	956
	GBP	170	15.91	2,496	-	-	-
	BRL	41,913	2.8899	130,768	903	2.8737	2,596
	THB	2,088	0.2068	432	4	0.2087	0.94
	PKR	215,941	0.1495	32,278	610,610	0.1441	87,984
	KRW	24,000	0.0080	192	-	-	-
	MXP	643	0.7372	474	254	0.7386	188
	EGP	12,947	1.3482	17,454	-	-	-
	INR	23,129	0.1861	4,305	-	-	-
	EUR	6,696	11.2627	74,380	2,383	10.3400	24,640
	MYR	11	31.4260	335	-	-	-
	ROL	121,142	0.0066	794	-	-	-
	AVD	66	6.1480	282	-	-	-
	TJR	37	2.7231	101	3,845	0.0270	104
	CDF	85,935	0.0157	1,615	-	-	-
	Sub-total			7,273,667			3,716,256

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 1. Cash in banks and on hands (continued)

Item	Balance at the end of the period			Balance at the beginning of the period		
	Original currency	Conversion rate	RMB equivalent	Original currency	Conversion rate	RMB equivalent
Other monetary funds	RMB					
	304,656	1.0000	304,656	2,113	1.0000	2,113
	HKD					
	-	1.0603	-	258	1.0657	276
	PKR					
	24,741	0.1495	3,698	-	-	-
	USD					
	118	8.2705	977	7,688	8.2767	63,633
	JPY					
	-	0.0807	-	24	14.7100	354
	SEK					
	320	1.1290	361	-	-	-
Sub-total			309,692			66,376
Total			7,598,223			3,785,022

* Balance of cash in banks and on hands of the Company as at the end of the period increased by RMB3,813,201 accounting for 100.74% of growth rate as compared to the end of last year; mainly due to the total proceeds of approximately RMB3.7 billion received in December 2004 raised from the overseas public offering of foreign-invested shares (H Shares) during the period.

** There is outstanding balance at the amount of PKR26,845,294 (in equivalent RMB4,013) for mortgage in cash in banks and on hands at the end of the period.

Explanatory note 2. Notes receivable

Type	Balance at the end of the period	Balance at the beginning of the period
Bank acceptance bills	743,356	805,097
Commercial acceptance bills	1,514,732	1,834,869
Total	2,258,088	2,639,966

* The discounted and immature commercial bills amounted to RMB440,885. The Company is obligated to repay the indebtedness in case the debtors fail to do so.

Explanatory note 3. Accounts receivable

Particulars of consolidated amounts of accounts receivable are set out as follows:-

Ageing	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Percentage of the total amount	Provision for bad debts	Amount	Percentage of the total amount	Provision for bad debts
Within one year	3,513,954	86.08%	124,909	1,739,514	77.91%	11,102
Between one to two years	420,742	10.31%	224,275	203,501	9.11%	6,609
Between two to three years	113,999	2.79%	67,346	70,891	3.18%	2,602
Over three years	33,416	0.82%	13,075	218,733	9.80%	57,157
Total	4,082,111	100%	429,605	2,232,639	100%	77,470

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 3. Accounts receivable (continued)

- * Balance of accounts receivable of the Group as at the end of the period increased by RMB1,849,472 or 82.84%, as compared to the end of last year, mainly due to a corresponding increase in the outstanding balance of accounts receivable as a result of expansion of the Company's operations and increase in sales.
- ** Of the balance of accounts receivable as at 31 December 2004, the top five outstanding amounts of accounts receivable amounted to RMB1,659,230, accounting for 40.65% of the total accounts receivables.
- *** Reason for the decrease in the amount of provision for bad debts with an ageing of over three years as at the end of the period is that of the accounts receivable with an ageing of over three years, an amount of RMB14,228 is guaranteed by bank usance credit and according to the repayments made during the last few years, repayments have been made by the debtors strictly in compliance with the schedules as covenanted under the contracts. Therefore, no provision for bad debts was made by the Company for such portion of accounts receivables.
- **** No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.
- **** The amount receivable from shareholders holding 5% or more in the shares was RMB169 at the end of period. Please refer to Note 7 "Relationship and transactions with related parties".

Particulars of Company amounts of accounts receivable are set out as follows:-

Ageing	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Percentage of the total amount	Provision for bad debts	Amount	Percentage of the total amount	Provision for bad debts
Within one year	3,887,109	87.61%	123,773	1,913,953	75.17%	10,704
Between one to two years	410,416	9.25%	216,698	344,818	13.54%	5,891
Between two to three years	110,457	2.49%	67,244	69,430	2.73%	2,390
Over three years	28,946	0.65%	12,883	217,973	8.56%	57,091
Total	4,436,928	100%	420,598	2,546,174	100%	76,076

- * Balance of accounts receivable of the Company as at the end of the period increased by RMB1,890,754 accounting for 74.26% as compared to the end of last year, mainly due to a corresponding increase in the amount of receivable as a result of expansion of the Company's operations and increase in sales.
- ** Of the balance of accounts receivable as at 31 December 2004, the top five outstanding amounts of accounts receivable amounted to RMB1,971,462, accounting for 44.43% of the total accounts receivable.
- *** Reason for the decrease in the amount of provision for bad debts with an ageing of over three years as at the end of the period is that of the accounts receivable with an ageing of over three years, an amount of RMB14,228 is guaranteed by letter of bank usance credit and according to the repayments made during the last few years, repayments have been made by the debtors strictly in compliance with the schedules as covenanted under the contracts. Therefore, no provision for bad debts was made by the Company for such portion of accounts receivable.
- **** No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 4. Other receivables

Ageing	Balance at the end of the period			Balance at the beginning of the period		
	Amount	Percentage of the total amount	Provision for bad debts	Amount	Percentage of the total amount	Provision for bad debts
Within one year	291,783	39.69%	175,946	397,369	62.14%	30,732
Between one to two years	271,113	36.88%	137,116	111,959	17.51%	111,912
Between two to three years	42,628	5.80%	41,418	47,337	7.40%	46,772
Over three years	129,564	17.63%	123,013	82,783	12.95%	81,745
Total	735,088	100%	477,493	639,448	100%	271,161

* No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

Particulars of Company amounts of other receivables are set out as follows:–

Ageing	Balance at the end of the period		
	Amount	Percentage of the total amount	Provision for bad debts
Within one year	781,310	64.92%	166,872
Between one to two years	257,046	21.36%	135,531
Between two to three years	41,667	3.46%	41,156
Over three years	123,527	10.26%	121,808
Total	1,203,550	100%	465,367

* Outstanding amount due from shareholders holding 5% or more of the Company's shares as at the end of the period see Note 7 Related-party transactions.

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 5. Accounts prepaid

Ageing	Balance at the end of the period		Balance at the beginning of the period	
	Amount	Percentage of the total amount	Amount	Percentage of the total amount
Within one year	145,151	99.83%	147,039	100%
Between one to two years	247	0.17%	–	–
Over two years	–	–	–	–
Total	145,398	100%	147,039	100%

* No outstanding amount due from shareholders holding 5% or more in the shares as at the end of the period.

Explanatory note 6. Inventories and provision for inventories

Type	Balance at the end of the period		Balance at the beginning of the period	
	Carrying balance	Provision	Carrying balance	Provision
Raw materials	1,304,417	86,161	1,075,825	65,290
Work-in-progress	356,899	–	176,249	1,990
Finished goods	575,071	333,612	235,763	7,227
Materials for construction-in-progress	1,404,003	170,094	–	–
Dispatch goods	1,552,992	172,651	3,382,176	207,680
Science and technology R&D cost*	146,700	–	113,957	–
Others	66,194	–	2,613	–
Total	5,406,276	762,518	4,986,583	282,187

* In accordance with the provision under Document Cai Kuai Bian [2002] No.36 Reply on Recording for Development Expenses of the State's Specific Science Study Projects issued by Accounting Department of Ministry of Finance, expenses incurred during the completion of R&D products designated under the specific funds provided by the State were treated as bunching of product processing costs and expenses of the products produced by the Company and were separately accounted for under science and technology R&D cost as set out in the list of inventories. Period end balance of science and technology R&D cost represents the costs and expenses bunched before the completion or check and acceptance of the projects subject to the State's specific funds.

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 6. Inventories and provision for inventories (continued)

Breakdown of provision for inventories:

Item	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Raw materials	65,290	20,871	–	86,161
Work-in-progress	1,990	–	1,990	–
Finished goods	7,227	326,385	–	333,612
Materials for construction-in-progress	–	170,094	–	170,094
Dispatch goods	207,680	–	35,029	172,651
Total	282,187	517,350	37,019	762,518

Explanatory note 7. Long-term investments

(1) Particulars of consolidated amounts of long-term investments are set out as follows:–

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term equity investments						
Of which: share investments	–	–	–	–	–	–
Other equity investments	61,491	–	61,491	13,390	675	12,715
Differences in equity investments	18,721	13,036	5,685	21,271	–	21,271
Long-term bond investments	–	–	–	–	–	–
Total	80,212	13,036	67,176	34,661	675	33,986

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 7. Long-term investments (continued)

a. Other equity investments

I. Other equity investments accounted for using the cost method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Shenzhen Capital Group Co., Ltd.	0.33%	5,000	5,000	-	-	5,000
Beijing Zhongshilian Digital System Company Limited	7.59%	3,240	3,240	-	-	3,240
Spread Telecom	4.5%	176	176	-	-	176
MI Security Co., Ltd	13.90%	676	676	(676)	-	-
Edmotech Co., Ltd	18%	1,406	1,406	-	-	1,406
Shenzhen Zhonyxing Xinyu FPC Company, Limited	19.23%	2,500	-	2,500	-	2,500
Zhongyi Dingxun Telecom Company Ltd.	16.00%	32,000	-	32,000	-	32,000
SunTop Technologies Ltd.		24	24	-	-	24
Total			10,522	33,824	-	44,346

II. Other equity investments accounted for using the equity method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase/decrease in investment cost for the period	Increase/decrease in equity interests for the period	Balance at the end of the period
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	3,000	300	-	29	329
Beijing Zhongxing Xin Telecom Ltd.	50%	2,500	6,310	-	1	6,311
ZTE Portugal Co. Ltd	100%	496	496	(496)	-	-
KAZNURTEL Limited Liability Company	49%	USD0.25	-	1,012	-	1,012
Wuxi KaiEr Science and Technology Company, Limited	35%	3,500	-	3,500	-	3,500
Shenzhen Weigao Semiconductor Company, Limited	40%	4,000	-	4,000	-	4,000
Bestel Communication Ltd	50%		2,072		(79)	1,993
Total			9,178	8,016	(49)	17,145

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 7. Long-term investments (continued)

b. Changes in provision for impairment of investments

Name of investee unit	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
MI Security Co., Ltd	675	-	675	-
Shenzhen Guoxin Electronics Development Company, Limited (difference in equity investments)	-	13,036	-	13,036
Total	675	13,036	675	13,036

c. Differences in equity investments

Investee unit	Amortized period	Initial amount	Amortized for the period	Accumulated amortization	Net value
Shenzhen Guoxin Electronics Development Company, Limited	10 years	17,382	1,738	4,346	13,036
ZTE Mobile Tech Co., Limited	10 years	8,626	1,935	2,941	5,685
Total		26,008	3,673	7,287	18,721

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 7. Long-term investments (continued)

(2) Particulars of Company amounts of long-term investments are set out as follows:–

Item	Balance at the end of the period			Balance at the beginning of the period		
	Carrying balance	Provision for impairment	Carrying value	Carrying balance	Provision for impairment	Carrying value
Long-term equity investment						
Of which: share investments	–	–	–	–	–	–
Other equity investments	2,999,345	–	2,999,345	1,594,478	–	1,594,478
Differences in equity investments	6,686	13,036	(6,350)	7,516	–	7,516
Long-term bond investments	–	–	–	–	–	–
Total	3,006,031	13,036	2,992,995	1,601,994	–	1,601,994

a. Other equity investments

1. Other equity investments accounted for using the cost method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Shenzhen Capital Group Co., Ltd.	0.33%	5,000	5,000	–	–	5,000
Beijing Zhangshilian Digital System Company, Limited	7.59%	3,240	3,240	–	–	3,240
Zhongyi Dingxun Telecom Company, Ltd.	16.00%	32,000	–	32,000	–	32,000
SunTop Technologies Ltd.		–	23	–	–	23
Total			8,263	32,000	–	40,263

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 7. Long-term investments (continued)

a. Other equity investments (continued)

II. Other equity investments accounted for using the equity method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase/decrease in investment cost for the period	Increase/decrease in equity interests for the period	Balance at the end of the period
ZTE Kangxun Telecom Co., Ltd.	90%	RMB45,000	883,626	-	153,140	1,036,766
ZTE Mobile Communication Equipment Co., Ltd.	90%	RMB9,000	9,265	-	75	9,340
Shanxi Zhongxing Telecom Equipment Company, Limited	51%	RMB4,080	6,096	-	(509)	5,587
Beijing Zhongxing Telecom Ltd.	50%	RMB2,500	6,310	-	1	6,311
ZTE (USA) Inc.	100%	USD650	(1,419)	-	5,592	4,173
Wuxi Zhongxing Optoelectronics Technologies Company, Limited	65%	RMB5,200	28,051	1,300	136	29,487
ZTEIC Design Co., Ltd.	60%	RMB30,000	4,868	-	1,940	6,808
Beijing Zhongxing Yuanjing Technology Co., Ltd.	30%	RMB3,000	300	-	29	329
ZTE (H.K.) Limited	100%	RMB5,500	397,348	47,700	(44,680)	400,368
Anhui Wantong Posts and Telecommunications Company, Limited	51%	RMB15,698	18,757	-	(140)	18,617
TELRISE (CAYMAN)	52.85%	RMB15,770	1,299	-	4,666	5,965
ZTE Future Tel Co., Ltd	54.14%	RMB26,975	11,998	-	(11,437)	561
Shenzhen Guoxing Electronics Development Company, Limited	90%	RMB12,318	3,292	-	-	3,292
Congo-Chine Telecom S.A.R.L.	51%	RMB41,500	29,958	-	2,198	32,156
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited	65%	RMB3,900	(1,320)	-	(8,570)	(9,890)
ZTE Mobile Tech Co., Limited	95%	RMB31,666	9,855	23,877	(24,698)	9,034
Nanjing Zhong Xing Software Development Technology Co., Ltd.	81%	RMB25,560	47,220	-	8,485	55,705
ZTE (UK) LIMITED	51%	USD372.30	(2,745)	-	(4,131)	(6,876)
Shenzhen Zhongxing Software Company, Limited	90%	RMB45,000	122,531	-	1,052,771	1,175,302
ZTE Integration Telecom Ltd.	75%	RMB24,000	18,449	17,250	1,223	36,922
ZTE Wistron Telecom AB	100%	RMB3,137	890	-	824	1,714
ZTE Communication Technologies, Ltd.	100%	USD950	415	6,167	(1,019)	5,563
ZTE DO BRASSIL LTDA	100%	USD900	(146)	-	(992)	(1,138)
Shenzhen Changfei Investment Company, Limited	51%	RMB15,300	-	15,300	27,585	42,885

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 7. Long-term investments (continued)

a. Other equity investments (continued)

II. Other equity investments accounted for using the equity method

Name of investee company	Percentage of the registered capital of investee company	Initial investment cost	Balance at the beginning of the period	Increase/decrease in investment cost for the period	Increase/decrease in equity interests for the period	Balance at the end of the period
Zhongxing Telecom Pakistan (Private) Limited	93%	RMB1,550	(4,502)	-	7,970	3,468
Guangdong New Pivo Technology & Service Company, Limited	90%	RMB4,500	-	4,500	274	4,774
Shenzhen ZhongxingTelecom Equipment Technology & Service Company, Limited	90%	RMB45,000	-	45,000	(69)	44,931
Shanghai ZhongxingTelecom Equipment Technology & Service Company, Limited	51%	RMB5,100	-	5,100	331	5,431
Shenzhen Zhongxing Special Equipment Company, Limited	54%	RMB540	543	-	(55)	488
ZTE Holdings (Thailand) Co., Ltd	49%	USD13.72	(1,637)	-	1,631	(6)
ZTE (Thailand) Co., Ltd	49%	USD204.53	(1,365)	-	(380)	(1,745)
ZTE Corporation De Mexico	100%	USD28.12	(1,722)	-	(4,053)	(5,775)
Closed Joint Stock Company TK Mobile	51.00%	USD2,040	-	16,871	(1,936)	14,935
ZTE Kongxun Telecom Company India (Private) Ltd.	100%	USD200	-	1,654	(55)	1,599
ZTE ROMANIA SRL	100%	-	-	827	(378)	449
ZTE MALAYSIA CORPORATION SDN. BHD.	100%	-	-	496	(630)	(134)
ZiMax (Cayman) Holding Ltd.	100%	-	-	20,675	(2)	20,673
KAZNURTEL Limited Liability Company	49%	USD2,500	-	1,013	-	1,013
Total			1,586,215	207,730	1,165,137	2,959,082

b. Changes in provision for impairment of long-term investments

Provision for impairment of long-term investments	Balance at the beginning of the period	Increase for the period	Reverse for the period	Balance at the end of the period
Shenzhen Guoxin Electronics Development CO., Ltd (difference in equity investments)	-	13,036	-	13,036

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 7. Long-term investments (continued)

c. Differences in equity investments

Investee unit	Amortized period	Initial amount	Amortized for the period	Accumulated amortization	Net value
Congo-Chine Telecom S.A.R.L.	10 years	(17,193)	(1,719)	(5,158)	(12,035)
Shenzhen Guoxin Electronics Development Company, Limited	10 years	17,382	1,738	4,346	13,036
ZTE Mobile Tech Co., Limited	10 years	8,626	1,935	2,941	5,685
Total		8,815	1,954	2,129	6,686

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 8. Fixed assets and accumulated depreciation

Cost of fixed assets	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Buildings	702,019	867	10,730	692,156
Motor Vehicle	130,191	52,163	5,083	177,271
Machinery equipment	733,687	165,584	60,138	879,133
Electronics equipment	677,131	410,636	189,018	898,749
Other equipment	63,496	15,892	928	78,460
Total	2,346,524	645,142	265,897	2,725,769

Accumulated depreciation	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Buildings	47,631	33,821	–	81,452
Motor Vehicle	43,896	14,677	33,734	24,839
Machinery equipment	198,987	79,911	28,818	250,080
Electronics equipment	299,651	177,548	45,114	432,085
Other equipment	3,720	1,734	587	4,867
Total	593,885	307,691	108,253	793,323

Provision for impairment	Balance at the beginning of the period	Increase for the period	Reverse for the period	Balance at the end of the period
Buildings	–	7,708	–	7,708
Machinery equipment	–	1,475	–	1,475
Electronics equipment	–	85,797	–	85,797
Total	–	94,980	–	94,980
Net value	1,752,639			1,837,466

* In 2004, the Company changed the depreciation period of fixed assets and a provision of RMB94,980 was made for such fixed assets which actual useful lives have exceeded the estimated useful lives after the change based on their carrying values.

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 9. Construction-in-progress

Name of construction project	Budget	Balance at the beginning of the period	Increase for the period	Transfer into fixed assets during the period	Other decrease for the period	Balance at the end of the period	Source of funds	Progress
Science and Technology Park R&D Center	333,136	14,345	56,924	-	-	71,269	Internal funds	Not completed
Land use rights	-	-	21,898	-	-	21,898	Internal funds	Not completed
4-th phase expanding network	-	-	11,407	-	-	11,407	Internal funds	Not completed
Others	20,000	6,270	9,650	-	5,817	10,103	Internal funds	Not completed
Total	353,136	20,615	99,879	-	5,817	114,677		

* Balance of construction-in-progress of the Company for the period increased by RMB94,062, accounting for 456.28% as compared to the end of last year, mainly due to the increase in investment in the Science and Technology Park R&D Center by the Company during the period.

Explanatory note 10. Intangible assets

Category	Method of possession	Initial amount	Amount at the beginning of the period	Addition in the period	Transfer in the period	Amortization in the period	Accumulated amortization	Amount at the end of the period	Remaining years for amortization
Non-patented technology	Acquisition	1,000	632	-	632	-	1,000	-	1-10 years
Software	Acquisition	186,307	90,135	76,400	-	49,948	69,720	116,587	1-5 years
Patented technology	Acquisition	7,998	7,024	311	-	1,458	2,121	5,877	1-10 years
Land use rights	Acquisition	12,589	9,732	1,236	-	227	1,848	10,741	49 years
Trademark use right	Investment	74,696	41,814	-	-	2,184	35,066	39,630	
Others		444	-	444	-	111	111	333	
Total		283,034	149,337	78,391	632	53,928	109,866	173,168	

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 10. Intangible assets (continued)

Provision for impairment of intangible assets are as follow:

Item	Amount at the beginning of the period	Additions in the year	Diminution in the year			Amount at the end of the period
			Written-back due to value of assets increased	Amount debited due to other reasons	Total	
Software	-	12,882	-	-	-	12,882
Land use rights	6,322	-	-	-	-	6,322
Trademark use rights	-	7,750	-	-	-	7,750
Total	6,322	20,632	-	-	-	26,954

Explanatory note 11. Long term prepaid expenses

Category	Initial amount	Amount at the beginning of the period	Addition in the period	Amortization in the period	Accumulated Amortization	Amount at the end of the period	Remaining years of amortization
Expenses for leased assets improvement	39,015	13,343	14,631	5,504	16,545	22,470	1-5 year
Others	2,174	989	1,181	855	859	1,315	1-3 year
Total	41,189	14,332	15,812	6,359	17,404	23,785	

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (FIGURES SET OUT BELOW REPRESENT CONSOLIDATED AMOUNTS, UNLESS AS OTHERWISE SPECIFIED) (continued)

Explanatory note 12. Deferred tax assets

Item	Amount at the end of the period	Amount at the beginning of the period
Deferred income tax	104,625	66,414

Explanatory note 13. Short-term loans

Category of loans	Currencies	Amount at the beginning of the period		Amount at the end of the period	
		Amount	RMB equivalent	Amount	RMB equivalent
Guaranteed loans	RMB	–	–	250,000	250,000
Mortgage loans	RMB	2,021	2,021		
Pledged loans	RMB	350,334	350,334	168,815	168,815
	USD	–	–	55,180	457,996
Credit loans	RMB	12,000	12,000	–	–
	USD	5,000	41,340		
Total			405,695		876,811

- ** On 31 December 2003, the Company entered into a forfeiting contract for the trade receivables of export with Agricultural Bank of China Shenzhen Sha Tou Kok Sub-Branch, pursuant to which the Company secured financing from Agricultural Bank of China Shenzhen Sha Tou Kok Sub-Branch by pledging immature creditor's rights of US\$6,807. The financing amount was US\$6,807. The financing period is till the maturity date of the creditor's rights receivables which were pledged to secure the financing pursuant to the above-mentioned contract. As at the end of the reporting period, the creditor's rights receivables were not yet due for payment.
- ** On 29 December 2004, the Company entered into a transfer contract for the trade receivables of export with no recourse with CITIC Industrial Bank Shenzhen Branch, pursuant to which the Company secured financing from CITIC Industrial Bank Shenzhen Branch by pledging immature creditor's rights of US\$3,432. The financing amount was US\$3,432. The financing period is till the maturity date of the creditor's rights receivables which were pledged to secure the financing pursuant to the above-mentioned contract. As at the end of the reporting period, the creditor's rights receivables were not yet due for payment.

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 14. Accounts payable

At the end of the period, accounts payable amounted to RMB2,919,483. The amount due to shareholders who held 5% or above of the Company's shares accounted for RMB51,168 (see Note 7 Related-party transactions).

Explanatory note 15. Advances from customers

At the end of the period, advances from customers amounted to RMB2,630,721. There was no amount due to shareholders who held 5% or above of the Company's shares.

Explanatory note 16. Taxes payable

Tax	At the end of the period	At the beginning of the period
Value-added tax	(223,852)	(96,261)
Business tax	13,815	328
Urban maintenance & construction tax	2,763	2,386
Enterprise income tax	228,648	106,503
Estate tax	10	–
Individual income tax	31,075	8,824
Total	52,459	21,780

The balance of the Company's tax payables at the end of the period increased by RMB30,679 as compared with that at the beginning of the period, representing a growth of 140.86%. This is mainly due to the realization of the changes in accounting estimate of the revenue of communication systems construction projects during the period, resulting an increase of revenue from main operations and the value-added tax and enterprise income tax payables were increased accordingly.

Explanatory note 17. Other payables

At the end of the period, other payables were RMB698,727. The amount due to shareholders who held 5% or above of the Company's shares accounted for RMB313 (see Note 7 Related-party transactions).

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(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 18. Accrued expenses

Item	Amount at the end of the period	Amount at the beginning of the period
Interest expenses	3,072	11,887
Rent and water and electricity charges	3,966	225
Work installation expenses	1,063	316,206
Product maintenance fee	186,227	–
Commission	26,336	–
Others	47,870	3,994
Total	268,534	332,312

Explanatory note 19. Anticipated liabilities

The outstanding amount of anticipated liabilities amounted to RMB20,000 at the end of the period, which mainly account for potential liabilities from the rendering of quality assurance of the products.

Explanatory note 20. Long-term loans due within one year

Category of loans	Currencies	Amount	Amount at the end of the period RMB Equivalent	Amount at the beginning of the period RMB Equivalent
Credit loans	RMB	900	900	215,000
Guaranteed loans	RMB	–	–	58,000
	USD	1,929	16,000	–
Sub-total			16,900	273,000

Explanatory note 21. Long-term loans

Category of loans	Currencies	Amount	Amount at the end of the period RMB Equivalent	Amount	Amount at the beginning of the period RMB Equivalent
Credit loans	RMB	450,000	450,000	650,900	650,900
Guaranteed loans	RMB	500,000	500,000	29,000	29,000
	USD	7,719	64,000	9,665	80,000
Pledged loans	EUR	1,000	11,263	–	–
Total			1,025,263		759,900

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All amounts in '000, unless as otherwise stated

NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 22. Specific payables

Item	Amount at the end of the period	Amount at the beginning of the period
Technology appropriations	227,320	123,475

Explanatory note 23. Share capital

Item	Amount at the beginning of the period	Number of bonus shares	Amounts increase (decrease) during the period		Amount at the end of the period
			Addition	Decrease	
1. Non-trading shares					
1. Promoter shares					
State owned corporate shares	386,381	77,276	-	(1,384)	462,273
Domestic corporate shares	11,232	2,246	-	-	13,478
2. Non-promoter shares					
Domestic corporate shares	17,971	3,595	-	-	21,566
Total of non-trading shares	415,584	83,117		(1,384)	497,317
2. Trading shares					
1. Domestic listed RMB ordinary shares	251,712	50,342	-	-	302,054
2. Overseas listed foreign shares	-	-	160,151	-	160,151
Total of trading share	251,712	50,342	160,151	-	462,205
3. Total numbers of shares	667,296	133,459	160,151	(1,384)	959,522

* On 17 May 2004, pursuant to a resolution passed at the Company's shareholders' meeting, the Company increased its capital by a total of 133,459,200 shares by way of a bonus issue on the basis of 2 shares for every 10 shares then held based on its share capital as at 31 December 2003. Thereupon the Company's registered capital was increased to RMB800,755. The increased capital was verified by the capital verification report Shen Na Yan Zi Number (2004) 059 prepared by Shenzhen Na Fang-Min He Certified Public Accountants.

** On 9 December 2004, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), and a total of 1,384,590 state owned corporate shares were sold. The share capital of the Company has increased RMB158,767. The above share capital was verified by the capital verification report Shenhua Yan Zi Number (2005) 003 prepared by Shenzhen Dahua Tian Cheng Certified Public Accountants.

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All amounts in '000, unless as otherwise stated

NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 24. Capital reserve

Item	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
Share premium	2,079,246	3,383,411	–	5,462,657
Provision for acceptance of non-cash asset donation	62	–	–	62
Provision for equity investments	26,735	2,204	–	28,939
Total	2,106,043	3,385,615	–	5,491,658

* Increase in provision for equity investments was due to the changes in equity of the Company as a result of the changes in capital reserve of subsidiaries.

** Increase in share premium during the period represents the share premium received upon the issuance of overseas listed foreign shares.

Explanatory note 25. Surplus reserve

Item	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
Statutory surplus reserve	624,091	361,265	–	985,356
including: Statutory common reserve	410,038	323,312	–	733,350
Statutory public welfare fund	214,053	37,953	–	252,006

Explanatory note 26. Undistributed profit

	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
	1,221,165	1,008,870	494,724	1,735,311

* In addition, pursuant to the 2004 profit distribution plan announced at the twelfth meeting of the third session of the Board of Directors and based on the total share capital as at 31 December 2004, RMB2.5 was paid for every 10 shares (including tax), totaling RMB239,880 and the remaining reduced amounts were appropriated by surplus reserve and public welfare fund. In the amounts decreased during the period, an amount of RMB133,459 was passed and approved by the shareholders' meeting which is based on the total share capital as at 31 December 2003.

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 27. Revenue and cost of main operations

Details of the group revenue and cost of main operations are as follows:

Business segment:

Items of main operations	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Communication system construction	30,059,834	24,861,289	21,675,340	16,562,562
Communication terminal equipment	6,336,481	5,499,189	6,370,801	5,404,672
Telecommunications service income	51,141	24,553	55,624	27,493
Software product	2,435,916	153	–	–
Sub-total	38,883,372	30,385,184	28,101,765	21,994,727
Offsets against business segments within the Group	(16,185,219)	(16,016,078)	(12,065,730)	(11,701,771)
Total	22,698,153	14,369,106	16,036,035	10,292,956

* Sales revenue from the five largest customers of the Company totalled RMB15,163,377, accounting for 66.80% of total sales revenue for the period.

** Revenue from main operations increased by RMB6,662,118 as compared with that from the corresponding period last year, representing a growth rate of 41.54%. This is primarily due to the Company's expansion of the operation scale and the impact from the realization of the changes in accounting estimate of the revenue of communication systems construction projects.

Geographical segment:

Area	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Domestic	32,507,053	25,630,881	25,719,501	20,565,705
Overseas	6,376,319	4,754,303	2,382,264	1,429,022
Subtotal	38,883,372	30,385,184	28,101,765	21,994,727
Offsets against geographical segments within the Group	(16,185,219)	(16,016,078)	(12,065,730)	(11,701,771)
Total	22,698,153	14,369,106	16,036,035	10,292,956

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NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 27. Revenue and cost of main operations (continued)

Details of revenue and costs of main operations of the Company are as follows:

Business segment:

Items of main operations	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Communication system equipment	16,486,739	11,831,497	11,865,868	8,482,999
Communication terminal equipment	5,086,206	4,454,322	3,421,019	2,870,183
Total	21,572,945	16,285,819	15,286,887	11,353,182

Geographical segment:

Area	2004		2003	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Domestic	17,545,832	13,708,115	13,952,170	10,513,829
Overseas	4,027,113	2,577,704	1,334,717	839,353
Total	21,572,945	16,285,819	15,286,887	11,353,182

Explanatory note 28. Taxes and levies on main operations

Types of tax	2004	Basis of calculation
Business tax	31,532	5%, 3%
Urban maintenance & construction tax	10,272	1%, 7%
Education surcharge	29,108	3%
Total	70,912	

Explanatory note 29. Profit from other operations

Item of activities	Amount for the period
Sales of raw materials	27,841
Technology service and consultation fee	12,678
Others	820
Total	41,339

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[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory note 30. Finance Expenses

Segment	2004	2003
Interest expenses	113,661	109,975
Less: Interest income	22,578	21,151
Gains/losses on exchange	16,130	(7,284)
Cash discounts and interest subsidy	138,508	163,879
Others	39,257	47,176
Total	284,978	292,595

Explanatory Note 31. Investment income

Details of consolidated investment income are as follows:

Segment	2004	2003
Income from stock	12,140	–
Equity investment difference in amortization	(3,673)	(2,344)
Investment income calculated under equity method	650	(1,465)
Dividends from associated companies	250	–
Gains/losses on disposal of equity	–	(2,371)
Provision for impairment of long term investments	(13,036)	(675)
Total	(3,669)	(6,855)

Details of investment income of the Company are as follows:

Segment	2004	2003
Investment income calculated under equity method	1,164,640	993,655
Dividends received from investee companies	250	–
Amortized difference in equity investments	(1,954)	(625)
Provision for impairment of long-term investments	(13,036)	–
Total	1,149,900	993,030

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 6. EXPLANATORY NOTES TO THE SIGNIFICANT FINANCIAL STATEMENTS (continued)

Explanatory Note 32. Subsidies income

Segment	2004	2003
Refund of development fund	–	910
Refund of value-added tax of software products*	345,066	60,181
Financial subsidies on essential new products	20,254	51,592
Preferential financial subsidies on new products	3,052	15,857
Subsidies granted on export sales	4,631	333
Others	5,695	–
Total	378,698	128,873

- * The refund of value-added tax on software products is the part of the value-added tax on the sales of software products which exceeds 3% of the actual tax burden refunded to the subsidiary held by the Company immediately after collecting, pursuant to related spirit of the "Policies on Encouraging the Development of Software Industry and Integrated Circuit Industry" of the State Council and the approval of the Shenzhen Municipal office of the State Administration of Taxation.

Explanatory Note 33. Non-operating income/expense

1. Non-operating income

Item of income	2004	2003
Transfer of output tax for locally produced and sold products	–	25,359
Gains from penalty	5,155	507
Gains from compensation	6,756	7,076
Net gains from disposal of fixed assets	164	526
Others	5,966	166
Total	18,041	33,634

2. Non-operating expenses

Item of expenses	2004	2003
Transfer of input tax for locally produced and sold products	–	13,637
Provision for impairment of fixed assets	87,003	–
Provision for impairment of intangible assets	20,632	6,322
Others	5,770	1,856
Net loss on write-off of assets	43,785	50,034
Input tax not offset by exports	3,447	–
Total	160,637	71,849

- * The amount of non-operating expenses in 2004 was larger, mainly due to the impact of the provision for impairment of fixed assets and the provision for amortization of intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

1. Relationship with related parties

[1] Related parties with non-controlling relationship

Name of related companies	Relationship with the Company
Shenzhen Zhongxing WXT Equipment Company, Ltd.	Shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Information Technology Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Shenzhen Lead Communications Company, Limited*	Has the same controlling shareholder as the Company
Beijing Zhongxing Yuanjing Technology Co., Ltd.	Associated company of the Company
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	Has the same controlling shareholder as the Company
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
Lishan Microelectronics Research Institute	Shareholder of the Company
Beijing Zhongxing Telecom Ltd.	Subsidiary jointly-controlled by the Company
Beijing Zhongxing Intelligent Transportation Systems Ltd.	Holding subsidiary of a subsidiary jointly-controlled by the Company
Shenzhen Zhongxing Xinyu FPC Company, Limited	Has the same controlling shareholder as the Company
Shenzhen Gaodonghua Communication Technology Co., Ltd	Partially holding company of the shareholder of the Company's controlling shareholder
Beijing Xieli Chaoyue Science Technology Co., Ltd.	Controlling company of the shareholder of the Company's controlling shareholder
Shenzhen Zhongxing Development Co., Ltd.	Partially holding company of the shareholder of the Company's controlling shareholder
Chung Xing (Hong Kong) Development Limited	Company controlled by key management personnel of the Company

* Shenzhen Lead Communications Company, Limited has been acquired by Shenzhen Changfei Investment Company, Limited, the holding subsidiary of the Company in March 2004, and has been combined in the consolidated financial statements of the Company, rather than as a related company after the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

1. Relationship with related parties (continued)

(2) Related parties with controlling relationship

Name of related companies	Category	Legal representative	Registered capital	Business	Shares or interests held	Relationship with the Company
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	State-owned	Zhang Taifeng	RMB10 million	*	52.85%	Controlling shareholder of the Company

* It is engaged in the production of programme-controlled switches, telephones and their accessories and electronic products, and operation of import and export business.

(3) Interest holding or shareholding and its changes regarding related parties with controlling relationship

Related companies	Amount at the beginning of the period	Increase in the period	Decrease in the period	Amount at the end of the period
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	352,685	70,537	–	423,222

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

2. Related parties transactions

[1] Purchase of products from the related parties by the Company

Item	Name of Companies	2004		2003	
		Amount	Percentage of the item	Amount	Percentage of the item
Purchase of goods	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	254,467	1.92%	357,573	3.54%
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	107,842	0.81%	107,364	1.06%
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	145,659	1.10%	16,584	0.16%
	Shenzhen Zhongxing Information Technology Co., Ltd.	7,301	0.06%	256	-
	Xi'an Microelectronics Technology Research Institute	12,103	0.09%	4,340	0.049%
	Shenzhen Zhongxing Xinyu FPC Company, Limited	6,686	0.05%	-	-
	Beijing Zhongxingxin Telecom Equipment Co., Ltd.	266	-	-	-
	Shenzhen Lead Communications Company, Limited*	39,747	0.3%	49,871	0.49%
	Shenzhen Gaodonghua Communication Technology Co., Ltd	12,034	0.09%	-	-
	Chung Hing (Hong Kong) Development Limited	1,500	0.01%	500	-

* The amount involved in related-party transactions between the Company and Shenzhen Lead Communications Company, Limited represents the transaction amount before that company was consolidated in the Company in January to March of 2004.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

2. Related parties transactions (continued)

(2) Sales of products to the related parties from the Company

Item	Name of Companies	2004		2003	
		Amount	Percentage of the item	Amount	Percentage of the item
Sales of goods	Shenzhen Zhongxing Information Technology Co., Ltd.	3,435	0.01%	10,339	0.06%
	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	1	—	6,333	0.04%
	Beijing Zhongxingxin Telecom Equipment Ltd.	10,904	0.04%	—	—
	Beijing Zhongxing Yuanjing Technology Co., Ltd.	13,945	0.05%	7,658	0.05%
	Shenzhen Lead Communications Company, Limited*	43,577	0.16%	47,829	0.28%
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	1,580	0.01%	1,211	0.01%
	Beijing Zhongxing Intelligent Transportation Systems Ltd.	16,591	0.06%	—	—
	Xi'an Microelectronics Technology Research Institute	52,547	0.19%	—	—
	Beijing Xieli Chaoyue Science Technology Co., Ltd.	228	—	—	—
	Shenzhen Zhongxing Development Co. Ltd.	2,982	0.01%	—	—

* The amount involved in related-party transactions between the Company and Shenzhen Lead Communications Company, Limited was the transaction amount before these two companies were consolidated in the Company in January to March of 2004.

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 7. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES (continued)

3. Amounts due from/to related parties

Items	Name of Related Companies	Amount at the end of the period	Amount at the beginning of the period
Accounts payable	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	51,168	—
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	31,325	23,481
	Shenzhen Zhongxin Information Technology Co., Ltd.	3,487	2,737
	Shenzhen Lead Communications Company, Limited	—	22,507
	Shenzhen Zhongxing Xinyu FPC Company, Limited	2,057	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	17,939	10,060
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	5,046	—
	Beijing Zhongxingxin Telecom Equipment Co., Ltd.	93	—
	Xi'an Microelectronics Technology Research Institute	3,923	—
Other payables	Shenzhen Zhongxing Telecom Ltd.	313	313
	Lishan Microelectronics Research Institute	65	—
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12	—
Notes payables	Shenzhen Zhongxing WXT Equipment Company, Ltd.	—	4,499
	Shenzhen Gaodonghua Communication Technology Co., Ltd.	8,448	—
Accounts prepaid	Shenzhen Zhongxing Telecom Ltd.	—	702
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	613	1,000
	Shenzhen Zhongxin Information Technology Co., Ltd.	2,663	5,258
Other receivables	Xi'an Microelectronics Technology Research Institute	65	65
	Lishan Microelectronics Research Institute	565	565
	Shenzhen Zhongxin Information Technology Co., Ltd.	1,038	1,038
	China Precision Machinery Import & Export Shenzhen Company	1,394	—
Accounts receivable	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	169	216
	Shenzhen Zhongxing WXT Equipment Company, Ltd.	2,930	1,082
	Shenzhen Lead Communications Company, Limited	—	32,258
	Beijing Zhongxing Yuanjing Technology Co., Ltd.	3,187	4,016
	Shenzhen Zhongxin Information Technology Co., Ltd.	1,246	2,181
Advances from customers	Beijing Zhongxing Intelligent Transportation Systems Ltd.	1,082	1,393
	Xi'an Microelectronics Technology Research Institute	93	712
	Beijing Zhongxing Telecom Ltd.	847	—
Proposed dividends	Shenzhen Zhongxing WXT Equipment Company, Ltd.	12,087	12,087
	Lishan Microelectronics Research Institute	936	—

NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC GAAP)

All amounts in '000, unless as otherwise stated

NOTE 8. CONTINGENT ISSUES

The Company has the following disclosable contingent issues:

1. The immature discounted trade bills amounted to RMB440,885 in the current period. If the debtor fails to make repayment when the amount falls due, the Company shall bear the liabilities in repaying the amount.
2. The sold immature accounts receivable amounted to RMB691,744 in the current period. If the debtor fails to make repayment when the amount falls due, the Company shall have the responsibility to assist the bank in recovering this amount from the debtor. Apart from paying interests overdue, the Company has no responsibility in repaying the amount.
3. After obtaining the approval document Jing Jing Mao Ji Cai Ji Zi [B] No.0288 issued by Beijing Foreign Economic Relations & Trade Commission, a trade amount of USD22,632 arising from exporting goods to Pakistan Telecommunications by the Company obtained a tax exemption (rebate) for forward settlement. As at 24 December 2004, the Company entered into an "Agreement in Relation to Payment Forfeit under Pakistan Telecommunications Project's Letter of Credit"(關於巴基斯坦通訊項目信用證下收匯買新事項的協議) with China Wanbo Engineering Company(中國萬寶工程公司), pursuant to which 7 outstanding payment items were forfeited to the headquarter of Bank of China. As at 31 December 2004, the amount due from Pakistan Telecommunications was USD1,720. The remaining trade amount shall be settled and written off before September 2006. If the amount is not written off accordingly, the Company shall return the export tax exemption for the portion that has not been settled. The Company estimates that the remaining trade amount shall be recovered and written off in a proper way according to the regulations set in the contract within the written-off period.
4. As at 31 December 2004, bank performance guarantee issued by the Company amounting to RMB1,626,070 were still outstanding.

NOTE 9. NON-ADJUSTMENT ITEMS AMONG POST BALANCE SHEET EVENTS

There is no non-adjustment item after the balance sheet date.

NOTE 10. OTHER IMPORTANT MATTERS

There are no other important matters.

NOTES TO THE FINANCIAL STATEMENTS

[Prepared under PRC GAAP]

All amounts in '000, unless as otherwise stated

NOTE 11. RECONCILIATION OF DIFFERENCE OF FINANCIAL REPORTS PREPARED UNDER DOMESTIC & HONG KONG ACCOUNTING STANDARDS

Net assets recognized under Hong Kong GAAP	9,217,152
Add:	
Pension benefits provided under Hong Kong GAAP	28,923
Technology funds and research and development costs accounted for under different standards	(69,589)
Others	(2,047)
Net assets recognised in financial statements under Accounting System for Business Enterprises in P.R.C.	9,174,439
Net profit calculated under Hong Kong GAAP	1,272,489
Add:	
Pension benefits provided under Hong Kong GAAP	1,733
Technology funds and research and development costs accounted for under different standards	24,434
Financial statements for H Shares are restated for previous 3 years as the impact of changes in accounting estimates and other adjustment items for the current year is adjusted respectively the financial statements for the years before	(289,786)
Net profit recognised in financial statements under Accounting System for Business Enterprises	1,008,870

NOTE 12. NET RETURN ON ASSETS AND EARNINGS PER SHARE

Profit in the reporting period	Net Return on Assets (%)		Earnings per Share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	90.01%	158.87%	8.61	11.08
Operating profit	12.93%	22.82%	1.24	1.59
Net Profit	11.00%	19.41%	1.05	1.35
Net profit after extraordinary items	10.82%	19.09%	1.03	1.33

STATEMENTS OF PROVISION FOR IMPAIRMENT OF ASSETS

(Prepared under PRC GAAP)

31 December 2004

Unit: RMB'000				
Item	Balance at the beginning of the period	Additions in the current period	Reverse in the current period	Balance at the end of the period
1. Aggregate bad debt provision	348,631	558,467	-	907,098
Including: Accounts receivable	77,470	352,135	-	429,605
Other receivables	271,161	206,332	-	477,493
2. Aggregate provision for inventories	282,187	517,350	37,019	762,518
Including: Raw materials	65,290	20,871	-	86,161
Work in progress	1,990	-	1,990	-
Finished goods	7,227	326,385	-	333,612
Materials for construction in progress	-	170,094	-	170,094
Dispatch Goods	207,680	-	35,029	172,651
3. Long-term investment impairment provision	675	13,036	675	13,036
Including: Long-term equity investments	675	13,036	675	13,036
Long-term bond investments	-	-	-	-
4. Fixed asset impairment provision	-	94,980	-	94,980
Including: Machineries and equipment	-	1,475	-	1,475
Electronic equipment	-	85,797	-	85,797
Buildings	-	7,708	-	7,708
5. Intangible asset impairment provision	6,322	20,632	-	26,954
Including: Land use rights	6,322	-	-	6,322
Software	-	12,882	-	12,882
Trademark rights	-	7,750	-	7,750

REPORT OF THE AUDITORS



安永會計師事務所

To the members

ZTE Corporation

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 177 to 241 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

10 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
TURNOVER	5	21,220,062	17,036,083
Cost of sales		(13,813,530)	(11,226,066)
Gross profit		7,406,532	5,810,017
Other revenue and gains	5	534,129	251,969
Research and development costs		(2,265,211)	(1,535,726)
Selling and distribution costs		(2,799,630)	(1,981,543)
Administrative expenses		(981,420)	(869,022)
Other operating expenses		(162,352)	(213,853)
PROFIT FROM OPERATING ACTIVITIES	6	1,732,048	1,461,842
Finance costs	7	(140,397)	(171,154)
Share of profits and losses of:			
Jointly-controlled entities		3,410	(1,768)
Associates		32	(1,740)
PROFIT BEFORE TAX		1,595,093	1,287,180
Tax	10	(115,259)	(198,541)
PROFIT BEFORE MINORITY INTERESTS		1,479,834	1,088,639
Minority interests		(207,345)	(60,333)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		1,272,489	1,028,306
DIVIDENDS	12	239,880	200,188
EARNINGS PER SHARE			
Basic	13	RMB1.57	RMB1.28

CONSOLIDATED BALANCE SHEET

(Prepared under Hong Kong accounting standards)

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets	15	1,989,587	1,628,298
Intangible assets	16	207,949	258,544
Goodwill	17	5,684	21,271
Interests in jointly-controlled entities	19	7,786	5,319
Interests in associates	20	8,845	300
Long-term investments	21	44,347	9,840
Long-term trade receivables	24	88	102,956
Deferred tax assets	33	104,681	143,195
		2,368,967	2,169,723
CURRENT ASSETS			
Inventories	22	1,725,067	1,323,307
Amount due from customers for contract work	23	2,752,024	3,652,991
Trade and bills receivables	24	5,912,181	5,203,773
Prepayments, deposits and other receivables	25	651,301	456,641
Pledged bank deposits	26	88,978	97,085
Cash and cash equivalents	26	7,509,245	3,572,867
		18,638,796	14,306,664
CURRENT LIABILITIES			
Trade and bills payables	27	4,341,111	4,429,468
Amount due to customers for contract work	23	2,318,731	2,771,004
Other payables and accruals	28	2,808,160	2,312,155
Interest-bearing bank borrowings	29	421,695	977,893
Tax payable		230,719	278,553
Dividend payables		920	4,054
		10,121,336	10,773,127
NET CURRENT ASSETS		8,517,460	3,533,537
TOTAL ASSETS LESS CURRENT LIABILITIES		10,886,427	5,703,260
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	1,025,262	759,000
Provision for retirement benefits	30	28,923	27,190
Other long-term payables	31	136,710	90,587
		1,190,895	876,777
MINORITY INTERESTS		478,380	226,553
		9,217,152	4,599,930

CONSOLIDATED BALANCE SHEET (continued)

(Prepared under Hong Kong accounting standards)

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
CAPITAL AND RESERVES			
Issued capital	34	959,522	667,296
Reserves	35(a)	8,017,750	3,732,446
Proposed final dividend	12	239,880	200,188
		9,217,152	4,599,930

Hou Weigui
Director

Yin Yimin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[Prepared under Hong Kong accounting standards]

Year ended 31 December 2004

	Notes	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2003		556,080	2,190,320	460,814	806	363,367	111,216	3,682,603
Issue of bonus shares		111,216	(111,216)	-	-	-	-	-
Final 2002 dividend declared		-	-	-	-	-	(111,216)	(111,216)
Exchange realignments and net gains not recognised in the profit and loss account		-	-	-	237	-	-	237
Net profit from ordinary activities attributable to shareholders		-	-	-	-	1,028,306	-	1,028,306
Transfer from retained profits	35	-	-	259,394	-	(259,394)	-	-
Proposed final 2003 dividend	12	-	-	-	-	(200,188)	200,188	-
At 31 December 2003 and 1 January 2004		667,296	2,079,104	720,208	1,043	932,091	200,188	4,599,930
Issue of bonus shares		133,459	-	-	-	(133,459)	-	-
Issue of H shares	34	160,151	3,574,571	-	-	-	-	3,734,722
Conversion of state owned equity interest shares	34	(1,384)	(29,475)	-	-	-	-	(30,859)
Share issue expenses	34	-	(161,685)	-	-	-	-	(161,685)
Final 2003 dividend declared		-	-	-	-	-	(200,188)	(200,188)
Exchange realignments and net gains not recognised in the profit and loss account		-	-	-	2,743	-	-	2,743
Net profit from ordinary activities attributable to shareholders		-	-	-	-	1,272,489	-	1,272,489
Transfer from retained profits		-	-	265,148	-	(265,148)	-	-
Proposed final 2004 dividend	12	-	-	-	-	(239,880)	239,880	-
At 31 December 2004		959,522	5,462,515*	985,356*	3,786*	1,566,093*	239,880	9,217,152
Reserves retained by:								
Company and subsidiaries		959,522	5,462,515	984,596	3,631	1,563,490	239,880	9,213,634
Jointly-controlled entities		-	-	760	155	1,673	-	2,588
Associates		-	-	-	-	930	-	930
At 31 December 2004		959,522	5,462,515	985,356	3,786	1,566,093	239,880	9,217,152
Company and subsidiaries		667,296	2,079,104	719,448	957	932,861	200,188	4,599,854
Jointly-controlled entities		-	-	760	86	(1,668)	-	(822)
Associates		-	-	-	-	898	-	898
At 31 December 2003		667,296	2,079,104	720,208	1,043	932,091	200,188	4,599,930

* These reserve accounts comprise the consolidated reserve of approximately RMB8,017,750,000 (2003: RMB3,732,446,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,595,093	1,287,180
Adjustments for:			
Finance costs	7	140,397	171,154
Share of profits and losses of jointly-controlled entities		(3,410)	1,768
Share of profits and losses of associates		(32)	1,740
Interest income	5	(30,118)	(29,703)
Government grants	5	(68,710)	(33,463)
Depreciation	6	281,157	270,666
Provision against inventory obsolescence and net realisable value	6	279,575	10,037
Provision for bad and doubtful debts	6	100,027	162,514
Amortisation and impairment of goodwill	6	17,733	2,344
Amortisation of intangible assets	6	79,846	86,152
Impairment of intangible assets	6	7,847	–
Impairment of long-term investments	6	–	674
Loss on disposal of fixed assets	6	11,654	22,657
Loss on retirement and disposal of intangible assets	6	19,605	–
Write-off of fixed assets	6	–	24,995
Gain on disposal of a subsidiary	5	–	(64)
Gain on disposal of short-term investments	5	(12,139)	–
Negative goodwill recognised as income	5	(4,770)	–
Operating profit before working capital changes		2,413,755	1,978,651
Decrease in long-term trade receivables		102,868	66,890
Increase in inventories		(657,672)	(272,997)
(Increase)/decrease in amount due from customers for contract work		900,967	(1,296,146)
Increase in trade and bills receivables		(757,033)	(1,943,073)
Increase in prepayments, deposits and other receivables		(171,933)	(267,644)
Increase/(decrease) in trade and bills payables		(168,656)	1,139,613
Increase/(decrease) in amount due to customers for contract work		(452,273)	983,091
Increase in other payables and accruals		464,587	762,331
Increase/(decrease) in other long-term payables		4,978	(2,699)
Cash generated from operations		1,679,588	1,148,017

CONSOLIDATED CASH FLOW STATEMENT (continued)

[Prepared under Hong Kong accounting standards]

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations		1,679,588	1,148,017
Interest received		30,118	29,703
Interest and other finance costs paid		(140,397)	(171,154)
Hong Kong profits tax (paid)/refunded		2,239	(2,138)
PRC taxes paid		(116,863)	(109,548)
Overseas taxes paid		(9,650)	(6,566)
Dividends received from jointly-controlled entities		700	750
Dividends paid		(203,322)	(109,367)
Dividends paid to minority shareholders		(2,457)	(97,213)
Net cash inflow from operating activities		1,239,956	682,484
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets and additions to construction in progress		(646,968)	(500,015)
Proceeds from disposal of fixed assets		5,754	1,406
Additions to intangible assets		(56,703)	(49,813)
Receipt of government grants		109,855	35,305
Purchases of long-term investments		(34,500)	–
Acquisition of interests in jointly-controlled entities		–	(1,662)
Purchase of short-term investments		(82,891)	–
Proceeds from disposal of long-term investments		–	380
Proceeds from disposal of short-term investments		95,030	–
Acquisition of associates		(8,513)	–
Acquisition of subsidiaries	36(a)	(7,602)	–
Acquisition of minority interests		(2,146)	(5,321)
Disposal of a subsidiary	36(b)	–	450
Decrease in pledged time deposits		8,107	70,867
Net cash outflow from investing activities		(620,577)	(448,403)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of H shares		3,573,037	–
Capital contributions by minority shareholders		39,112	49,885
New bank loans		1,768,029	4,071,887
Repayment of bank loans		(2,065,965)	(3,567,728)
Net cash inflow from financing activities		3,314,213	554,044

CONSOLIDATED CASH FLOW STATEMENT (continued)

(Prepared under Hong Kong accounting standards)

Year ended 31 December 2004

	Note	2004 RMB'000	2003 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,933,592	788,125
Cash and cash equivalents at beginning of year		3,572,867	2,784,377
Effect of foreign exchange rate changes, net		2,786	365
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,509,245	3,572,867
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	4,775,748	3,556,548
Non-pledged time deposits with original maturity of less than three months when acquired		2,733,497	16,319
		7,509,245	3,572,867

BALANCE SHEET

(Prepared under Hong Kong accounting standards)

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets	15	1,443,718	1,486,072
Intangible assets	16	159,835	202,723
Interests in subsidiaries	18	396,283	257,864
Interests in jointly-controlled entities	19	2,500	2,500
Interests in associates	20	4,013	3,000
Long-term investments	21	40,264	8,264
Long-term trade receivables	24	–	101,724
Deferred tax assets	33	76,475	90,135
		2,123,088	2,152,282
CURRENT ASSETS			
Inventories	22	1,203,430	979,565
Amount due from customers for contract work	23	3,414,540	3,919,395
Trade and bills receivables	24	6,256,867	5,733,056
Prepayments, deposits and other receivables	25	1,224,398	668,725
Pledged bank deposits	26	44,512	63,064
Cash and cash equivalents	26	6,418,653	2,675,011
		18,562,400	14,038,816
CURRENT LIABILITIES			
Trade and bills payables	27	6,748,602	5,732,515
Amount due to customers for contract work	23	2,162,901	2,241,642
Other payables and accruals	28	2,604,125	2,201,711
Interest-bearing bank borrowings	29	340,344	917,903
Tax payable		221,647	249,637
Dividend payables		920	4,054
		12,078,539	11,347,462
NET CURRENT ASSETS		6,483,861	2,691,354
TOTAL ASSETS LESS CURRENT LIABILITIES		8,606,949	4,843,636
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	29	950,000	679,000
Provision for retirement benefits	30	28,923	27,190
Other long-term payables	31	82,000	85,661
		1,060,923	791,851
		7,546,026	4,051,785

BALANCE SHEET (continued)

(Prepared under Hong Kong accounting standards)

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
CAPITAL AND RESERVES			
Issued capital	34	959,522	667,296
Reserves	35(b)	6,346,624	3,184,301
Proposed final dividend	12	239,880	200,188
		7,546,026	4,051,785

Hou Weigui
Director

Yin Yimin
Director

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

1. CORPORATE INFORMATION

The registered office of ZTE Corporation (the "Company") is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the People's Republic of China (the "PRC").

During the year, the Company and its subsidiaries (the "Group") were principally involved in the design, development, manufacture and sale of telecommunications systems equipment and solutions.

In the opinion of the directors, the ultimate holding company is Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/ amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of fixed assets are as follows:

Land use rights	50 years
Buildings	2 to 30 years
Leasehold improvements	Over the lease terms or 10 years, whichever is shorter
Machinery, computer and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents buildings, plant and machineries and other fixed assets under construction or installation, which are stated at cost less any impairment losses and are not depreciated. Cost comprises the direct costs of construction, installation and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Technology know-how

Purchased technology know-how is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 10 years.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Operating concession

Operating concession represents the right to operate a telecommunications company, and is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis over 20 years, being the period that the operating concession granted to the Group.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 5 years, commencing from the date when the products are put into commercial production.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the attributable net asset value of the investments, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of the investments are recognised directly in equity until the securities is sold or determined to be impaired, at which time the cumulative gain or loss is included in the profit and loss account for the year.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rental receivables under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fee. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications systems contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price telecommunications systems contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract work.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract work.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to other payable or other long-term payable accounts and is released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for warranties granted by the Group on construction contracts are recognised based on cost of sales and past experience of the level of repairs and returns.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits scheme

Defined contribution pension scheme

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies in the PRC governments for certain of its employees. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees salaries during the year. The contributions payable are charged as an expense to the profit and loss account as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Defined benefits pension scheme

In addition, the Group provides certain employees, who joined the group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits plan is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefits scheme. Therefore, there are no assets held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the assets and liabilities of the overseas subsidiaries and jointly-controlled entities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange ruling at that date. The profit and loss account of the overseas subsidiaries and jointly-controlled entities denominated in foreign currencies are translated into Renminbi at weighted average exchange rates for the year. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries denominated in foreign currencies are translated into Renminbi at the exchange rates at the date of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;
- (c) from the rendering of services, when services are rendered;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

4. SEGMENT INFORMATION

Segment information is presented by way of two segments: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) The wireless communications segment engages in the provision of systems integration and the sale of equipment for mobile phone network systems, primarily in respect of CDMA, GSM and wireless local access (PHS) systems.
- (b) The wireline switch and access segment engages in the manufacture and sale of wireline, circuit-switches and narrow-band access systems for fixed line phone systems.
- (c) The optical and data communications segment engages in the provision of DSL systems, SDH, WDM systems and softswitch systems, broadband routing switches, wireless access data products and other data communications products.
- (d) The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.
- (e) The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as intelligent networks, and operation support systems and the provision of fee-based services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:												
Contract revenue from external customers	8,786,407	7,783,341	2,598,588	2,257,949	2,335,273	2,210,966	-	-	1,484,827	1,157,177	15,205,095	13,409,433
Sale of goods	-	-	-	-	-	-	6,014,967	3,626,650	-	-	6,014,967	3,626,650
Total	8,786,407	7,783,341	2,598,588	2,257,949	2,335,273	2,210,966	6,014,967	3,626,650	1,484,827	1,157,177	21,220,062	17,036,083
Segment results	2,654,012	1,453,239	1,150,138	1,028,488	258,586	580,549	(64,871)	233,959	609,038	552,240	4,606,903	3,828,475
Interest and unallocated gains											534,129	251,969
Unallocated expenses											(3,408,984)	(2,618,602)
Profit from operating activities											1,732,048	1,461,842
Finance costs											(140,397)	(171,154)
Share of profit and losses of:												
Jointly-controlled entities	-	-	-	-	3,442	(1,479)	-	-	(32)	(289)	3,410	(1,768)
Associates	-	-	-	-	-	-	-	-	32	(1,740)	32	(1,740)
Profit before tax											1,595,093	1,287,180
Tax											(115,259)	(198,541)
Profit before minority interests											1,479,834	1,088,639
Minority interests											(207,345)	(60,333)
Net profit from ordinary activities attributable to shareholders											1,272,489	1,028,306
Segment assets	3,975,515	4,067,092	1,319,962	1,547,723	1,624,418	2,118,074	2,460,313	1,354,319	740,563	204,189	10,120,771	9,291,397
Interests in jointly-controlled entities	-	-	-	-	4,035	3,374	-	-	3,751	1,945	7,786	5,319
Interests in associates	-	-	-	-	-	-	-	-	8,845	300	8,845	300
Unallocated assets											10,870,361	7,179,371
Total assets											21,007,763	16,476,387
Segment liabilities	1,486,801	1,319,520	407,707	665,502	275,238	321,211	248,998	2,680	148,985	462,092	2,567,729	2,771,005
Unallocated liabilities											8,744,502	8,878,899
Total liabilities											11,312,231	11,649,904
Other segment information:												
Depreciation and amortisation	106,452	64,298	22,906	100,203	50,605	48,081	70,939	50,068	30,255	8,016	361,003	356,818
Amortisation of goodwill	-	-	-	-	-	-	2,958	-	1,738	2,344	4,696	2,344
Capital expenditure	266,426	88,843	57,329	265,249	126,652	81,618	177,542	38,033	75,722	76,085	703,671	549,828

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[Prepared under Hong Kong accounting standards]

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4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue information for the Group's geographical segments. Over 90% of the Group's assets are located in the PRC. Accordingly, no analysis of the assets and capital expenditure by geographical segment is presented.

Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:										
Contract revenue from external customers	10,636,190	11,519,753	2,453,308	979,252	1,513,052	829,288	602,545	81,140	15,205,095	13,409,433
Sale of goods	6,008,332	3,556,605	6,635	70,045	-	-	-	-	6,014,967	3,626,650
	16,644,522	15,076,358	2,459,943	1,049,297	1,513,052	829,288	602,545	81,140	21,220,062	17,036,083

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(Prepared under Hong Kong accounting standards)

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5. TURNOVER AND OTHER REVENUE AND GAINS

Turnover represents the aggregate of an appropriate proportion of contract revenue from construction contracts and the invoiced value of goods sold, net of value-added tax ("VAT"), and after allowances for goods returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue and gains is as follows:

	Notes	2004 RMB'000	2003 RMB'000
Turnover			
Telecommunications systems contracts		15,205,095	13,409,433
Sale of goods		6,014,967	3,626,650
		21,220,062	17,036,083
Other revenue			
Government grants		68,710	33,463
Sale of scrap materials		–	47,878
Service fees		22,968	7,545
VAT subsidies, exemptions and refunds [#]		395,424	133,316
Interest income		30,118	29,703
		517,220	251,905
Gains			
Gain on disposal of a subsidiary	36(b)	–	64
Negative goodwill recognised	36(a)	4,770	–
Gain on disposal of short-term investments		12,139	–
		16,909	64
		534,129	251,969

[#] During the year ended 31 December 2003 and 2004, the Company received VAT subsidies on the amount of VAT paid for high-technology products as approved by Shenzhen Economic and Trade Bureau (深圳市經濟貿易局), Shenzhen Science and Technology Bureau (深圳市科技局), Shenzhen Finance Bureau (深圳市財政局), Shenzhen State Tax Bureau (深圳市國家稅務局) and Shenzhen Local Tax Bureau (深圳市地方稅務局). In addition, for the year ended 31 December 2003 and 2004, Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software"), being a designated software enterprise, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%. Such VAT refunds were approved by Shenzhen State Tax Bureau (深圳市國家稅務局) and had been received by Zhongxing Software.

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Notes	2004 RMB'000	2003 RMB'000
Cost of inventories sold		13,322,040	10,833,539
Depreciation	15	281,157	270,666
Amortisation of intangible assets	16	79,846	86,152
Goodwill:			
Amortisation for the year*	17	4,696	2,344
Impairment arising during the year*	17	13,037	–
		17,733	2,344
Impairment of intangible assets	16	7,847	–
Loss on retirement and disposal of intangible assets		19,605	–
Provision for bad and doubtful debts*		100,027	162,514
Provision for warranties**	32	129,930	106,310
Provision against inventory obsolescence and net realisable value**		279,575	10,037
Minimum lease payments under operating leases on land and buildings		109,054	50,207
Auditors' remuneration		4,190	950
Staff costs (including directors' and supervisors' remuneration – note 8):			
Wages, salaries, bonuses, allowances and welfares		2,892,283	2,133,480
Pension scheme contributions:			
Defined benefits pension scheme – note 30		2,473	2,790
Defined contribution pension scheme		128,022	87,741
		3,022,778	2,224,011
Impairment of long-term investments*		–	674
Exchange losses, net*		13,334	669
Loss on disposal of fixed assets*		11,654	22,657
Write-off of fixed assets*		–	24,995

* The amortisation and impairment of goodwill, provision for bad and doubtful debts, impairment of long-term investments, exchange losses, net, loss on disposal and write-off of fixed assets are included in "Other operating expenses" on the face of the consolidated profit and loss account.

** The provision for warranties and provision against inventory obsolescence and net realisable value are included in "Cost of sales" on the face of the consolidated profit and loss account.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

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7. FINANCE COSTS

	Group	
	2004 RMB'000	2003 RMB'000
Interest on bank loans wholly repayable:		
Within five years	75,056	114,641
Beyond five years	–	1,333
	75,056	115,974
Finance costs on factoring loans and bills discounted	65,341	55,180
	140,397	171,154

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, are as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Fees	–	–
Other emoluments of executive directors and supervisors:		
Salaries, bonuses, allowances and welfare	3,073	1,980
Performance related bonuses	5,544	3,521
Retirement benefits scheme contribution	58	87
	8,675	5,588

Other emoluments include allowances of RMB335,000 (2003: Nil) in aggregate paid to the independent non-executive directors during the year.

The number of directors and supervisors whose remuneration fell within the following band is as follows:

	Number of directors and supervisors	
	2004	2003
Nil to RMB1,000,000	18	22
RMB1,000,001 – RMB1,500,000	5	–
	23	22

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included nil (2003: Nil) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 5 (2003: 5) non-director and non-supervisor, highest paid employees for the year are as follows:

	2004 RMB'000	2003 RMB'000
Salaries, bonuses, allowances and welfare	833	2,212
Performance related bonuses	7,289	3,511
Retirement benefits scheme contribution	–	11
	8,122	5,734

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2004	2003
Nil to RMB1,000,000	–	1
RMB1,000,001– RMB1,500,000	–	4
RMB1,500,001– RMB2,000,000	5	–
	5	5

During the year, no director or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. TAX

	2004 RMB'000	2003 RMB'000
Group:		
Current – Hong Kong	5,735	2,664
Current – Mainland China		
Charge for the year	113,651	243,514
Overprovision in prior years	(52,513)	–
Current – Overseas	9,567	9,513
Deferred tax (note 33)	38,514	(57,264)
	114,954	198,427
Jointly-controlled entities:		
Mainland China	305	114
Total tax charge for the year	115,259	198,541

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

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10. TAX (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Company and its subsidiaries, the Group's entities established in the PRC are subject to corporate income tax at a rate of 33% on their taxable income.

The Company and its subsidiaries that are registered and operating in the Shenzhen Special Economic Zone of the PRC are entitled to a preferential income tax rate of 15%.

On 31 July 1997, ZTE Kangxun Telecom Company, Limited ("Kangxun"), a major subsidiary of the Company was approved by the Shenzhen Local Tax Bureau to be exempted from corporate income tax for two years and a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 1997 until 31 December 2001. Kangxun was also certified as a high-technology enterprise on 1 August 2001. In December 2001, Kangxun obtained an approval from the Shenzhen Local Tax Bureau to extend the 50% relief from corporate income tax for a further three years effective from 1 January 2002 until 31 December 2004. The income tax rate applicable to Kangxun was 7.5% during this period. Upon cessation of the tax relief period, Kangxun will be subject to an income tax rate of 15% commencing from 1 January 2005.

As a designated software enterprise, Zhongxing Software, a major subsidiary of the Company was approved as a new software enterprise and entitled to full exemption from corporate income tax for two years and a 50% relief in the three years thereafter starting from the first profitable year which was effective from 1 January 2003 until 31 December 2007.

Shanxi Zhongxing Telecom Equipment Company, Limited and Wuxi Zhongxing Optoelectronics Technologies Company, Limited were both certified by the relevant authorities as high-technology enterprise. Pursuant to the relevant income tax laws in the PRC, these enterprises are subject to a preferential corporate income tax rate of 15%.

ZTEIC Design Co., Ltd ("ZTEIC Design") and ZTE Mobile Tech Co., Ltd ("ZTE Mobile") are both entitled to full exemption from corporate income tax for two years, starting from their first profitable years and a 50% relief in the three years thereafter. ZTEIC Design and ZTE Mobile each have not entered into their first profitable year since establishment.

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

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10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2004 RMB'000	%	2003 RMB'000	%
Profit before tax	1,595,093		1,287,180	
Tax at statutory tax rate	526,381	33.0	424,769	33.0
Lower tax rate for specific provinces or local authority	(287,117)	(18.0)	(231,692)	(18.0)
Expenses not deductible for tax	115,735	7.2	89,229	6.9
Income not subject to tax	(49,480)	(3.1)	(28,134)	(2.1)
Tax holiday	(202,910)	(12.7)	(70,403)	(5.5)
Tax losses of subsidiaries	12,650	0.8	14,772	1.1
Tax charge at the Group's effective rate	115,259	7.2	198,541	15.4

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company, was approximately RMB150,233,000 (2003: RMB1,241,786,000).

12. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Proposed final	239,880	200,188
	239,880	200,188

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

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13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of RMB1,272,489,000 (2003: RMB1,028,306,000) and the weighted average of 810,759,661 (2003: 800,755,200) ordinary shares in issue during the year, as adjusted to reflect the bonus issue of 133,459,200 A shares on 5 May 2004.

No diluted earnings per share has been presented as the Company did not have any dilutive potential ordinary shares during the year.

14. DISTRIBUTION OF PROFIT

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC, except for Sino-foreign joint ventures, are required to appropriate 10% of the net profit after tax (after offsetting any prior years' losses) calculated in accordance with "Accounting Standards for Business Enterprises" and "Accounting System for Business Enterprises" and other related standards (collectively "PRC GAAP") to the statutory surplus reserve (except where the reserve balance has reached 50% of each entity's capital), and 5% to 10% to the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages. The statutory public welfare fund can only be utilised for collective benefits to the employees of the respective companies. The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. Statutory surplus reserve and statutory public welfare fund were collectively presented as statutory reserve fund in the financial statements.

The Company can distribute dividends based on the lower of the Company's retained profits determined under PRC GAAP or Hong Kong accounting standards.

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

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15. FIXED ASSETS

Group

	Land use rights RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At beginning of year	62,379	649,951	46,101	1,416,418	118,228	19,378	2,312,455
Additions	414	387	8,952	497,865	32,656	106,694	646,968
Transfer	-	-	4,967	5,531	-	(10,498)	-
Acquisition of subsidiaries	-	-	-	12,432	192	-	12,624
Disposals	-	-	-	(77,776)	(3,888)	-	(81,664)
Reclassifications	-	(186)	-	(11,080)	11,266	-	-
Exchange realignments	-	-	-	1,720	87	-	1,807
At 31 December 2004	62,793	650,152	60,020	1,845,110	158,541	115,574	2,892,190
Accumulated depreciation:							
At beginning of year	6,977	51,769	31,647	551,795	41,969	-	684,157
Charge for the year	1,887	33,104	5,866	224,532	15,768	-	281,157
Acquisition of subsidiaries	-	-	-	511	21	-	532
Disposals	-	-	-	(62,051)	(2,204)	-	(64,255)
Reclassifications	-	898	-	(3,107)	2,209	-	-
Exchange realignments	-	-	-	941	71	-	1,012
At 31 December 2004	8,864	85,771	37,513	712,621	57,834	-	902,603
Net book value:							
At 31 December 2004	53,929	564,381	22,507	1,132,489	100,707	115,574	1,989,587
At 31 December 2003	55,402	598,182	14,454	864,623	76,259	19,378	1,628,298

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

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15. FIXED ASSETS (continued)

Company

	Land use rights RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At beginning of year	52,607	625,068	42,382	1,240,179	109,027	13,672	2,082,935
Additions	-	-	170	376,325	25,679	89,396	491,570
Transfer	-	-	4,967	-	-	(4,967)	-
Transfer from a subsidiary	-	-	-	17,980	-	-	17,980
Transfer to subsidiaries	-	-	-	(509,311)	(21,874)	-	(531,185)
Disposal	-	-	-	(51,888)	(3,888)	-	(55,776)
Reclassifications	-	(186)	-	(9,767)	9,953	-	-
Exchange realignments	-	-	-	39	55	-	94
At 31 December 2004	52,607	624,882	47,519	1,063,557	118,952	98,101	2,005,618
Accumulated depreciation:							
At beginning of year	614	40,814	29,473	487,305	38,657	-	596,863
Charge for the year	1,279	32,130	4,670	160,332	11,639	-	210,050
Transfer from a subsidiary	-	-	-	7,661	-	-	7,661
Transfer to subsidiaries	-	-	-	(200,579)	(8,762)	-	(209,341)
Disposals	-	-	-	(41,227)	(2,204)	-	(43,431)
Reclassifications	-	898	-	(3,107)	2,209	-	-
Exchange realignments	-	-	-	33	65	-	98
At 31 December 2004	1,893	73,842	34,143	410,418	41,604	-	561,900
Net book value:							
At 31 December 2004	50,714	551,040	13,376	653,139	77,348	98,101	1,443,718
At 31 December 2003	51,993	584,254	12,909	752,874	70,370	13,672	1,486,072

As at 31 December 2004, the Group was in the process of obtaining real estate title certificates for certain buildings located in Shenzhen, the PRC, with a net book value of approximately RMB9.7 million, included in the Group's buildings.

As at 31 December 2004, the Group was in the process of obtaining the land use right certificate of a piece of land in Wuxi, the PRC, with a net book value of approximately RMB3.7 million.

NOTES TO FINANCIAL STATEMENTS

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31 December 2004

15. FIXED ASSETS (continued)

All of the Group's and Company's land and buildings are situated in the PRC and are held under medium term leases.

The Group's land and buildings, included above at cost, were valued at HK\$747,901,000 as at 30 September 2004 as included in the prospectus issued on 29 November 2004 in connection with the listing of the Company's H shares on 9 December 2004. Had the Group's land and buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2004, an additional depreciation charge of approximately RMB 7.8 million would have been charged to the consolidated profit and loss account for the year ended 31 December 2004.

16. INTANGIBLE ASSETS

Group

	Technology know-how RMB'000	Computer software RMB'000	Operating concession RMB'000	Deferred development costs RMB'000	Total RMB'000
Cost:					
At beginning of year	1,280	162,297	39,840	244,296	447,713
Additions	–	48,856	–	7,847	56,703
Retirements and disposals	–	(1,732)	–	(112,104)	(113,836)
At 31 December 2004	1,280	209,421	39,840	140,039	390,580
Accumulated amortisation and impairment:					
At beginning of year	469	65,936	5,971	116,793	189,169
Provided during the year	128	35,477	1,992	42,249	79,846
Retirements and disposals	–	(894)	–	(93,337)	(94,231)
Impairment during the year recognised in the profit and loss account	–	–	–	7,847	7,847
At 31 December 2004	597	100,519	7,963	73,552	182,631
Net book value:					
At 31 December 2004	683	108,902	31,877	66,487	207,949
At 31 December 2003	811	96,361	33,869	127,503	258,544

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16. INTANGIBLE ASSETS (continued)

Company

	Computer software RMB'000	Deferred development costs RMB'000	Total RMB'000
Cost:			
At beginning of year	144,417	199,387	343,804
Additions	43,945	–	43,945
Retirements and disposals	(1,731)	(59,349)	(61,080)
At 31 December 2004	186,631	140,038	326,669
Accumulated amortisation:			
At beginning of year	61,906	79,175	141,081
Provided during the year	32,270	39,877	72,147
Retirements and disposals	(893)	(45,501)	(46,394)
At 31 December 2004	93,283	73,551	166,834
Net book value:			
At 31 December 2004	93,348	66,487	159,835
At 31 December 2003	82,511	120,212	202,723

17. GOODWILL

	Group RMB'000
Cost:	
At beginning of year	24,884
Acquisition of additional interests in a subsidiary	2,146
At 31 December 2004	27,030
Accumulated amortisation and impairment:	
At beginning of year	3,613
Provided during the year	4,696
Impairment provided during the year	13,037
At 31 December 2004	21,346
Net book value:	
At 31 December 2004	5,684
At 31 December 2003	21,271

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[Prepared under Hong Kong accounting standards]

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18. INTERESTS IN SUBSIDIARIES

	Company	
	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	532,297	338,964
Less: Provision for impairment	(136,014)	(81,100)
	396,283	257,864

The Company's trade receivables, other receivables, trade payables and other payables balances with the subsidiaries are disclosed in notes 24, 25, 27 and 28, respectively. The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company, Limited ("Kangxun")#(i) (深圳市中興康訊電子 有限公司)	The PRC 1 November 1996	RMB50,000,000	90	–	Manufacture and sale of electronic components
Nanjing Zhong Xing Software Development Technology Co., Limited#(ii) (南京中興軟創科技 有限責任公司)	The PRC 21 February 2003	USD7,231,029	81	–	Development, manufacture and marketing of computer software and digital equipment
Shanxi Zhongxing Telecom Equipment Company, Limited ("Shanxi Zhongxing")#(i) (山西中興通訊設備 有限公司)	The PRC 26 November 1997	RMB8,000,000	51	–	Development, manufacture and marketing of information technology products and provision of related technical services

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Zhongxing Software Company, Limited ("Zhongxing Software")#(i) (深圳市中興軟件 有限責任公司)	The PRC 9 July 2003	RMB50,000,000	90	–	Development of telecommunications systems software and provision of related consultancy services
Wuxi Zhongxing Optoelectronics Technologies Company, Limited ["Wuxi Zhongxing"]#(i) (無錫市中興光電子技術 有限公司)	The PRC 31 January 2000	RMB10,000,000	65	–	Development of technology for optical electronic products and provision of related technical services
Shenzhen Force Science and Technology Company, Limited#(i) (深圳市福斯科技 有限公司)	The PRC 23 July 2001	RMB3,000,000	–	52	Development, manufacture and sale of optical electronic products and provision of related technical services
Yangzhou Zhongxing Mobile Telecom Equipment Co., Limited#(i) (揚州中興移動通訊 設備有限公司)	The PRC 30 July 2002	RMB6,000,000	65	–	Development, manufacture and sale of computer software and integrated information systems
ZTE Integration Telecom Ltd.#(i) (深圳市中興集訊通信 有限公司)	The PRC 27 June 2003	RMB55,000,000	75	5	Development, manufacture and sale of information technology products

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Mobile Tech Co., Limited ("ZTE Mobile")#(i) (深圳市中興移動技術 有限公司)	The PRC 12 September 2001	RMB33,333,000	95	–	Development, manufacture and sale of telecommunications related products
ZTEIC Design Co., Ltd. ("ZTEIC Design")#(i) (深圳市中興集成電路設計 有限責任公司)	The PRC 20 March 2000	RMB50,000,000	60	–	Development, manufacture and sale of integrated circuit products
Shenzhen Guoxing Electronics Development Company, Limited ("Guoxing")#(i) (深圳市國鑫電子發展 有限公司)	The PRC 10 January 1992	RMB13,000,000	90	9	Development, manufacture and sale of integrated circuit products
Shenzhen Zhongxing Mobile Telecom Equipment Co., Ltd.#(i) (深圳市中興移動通信設備 有限公司)	The PRC 30 March 2000	RMB10,000,000	90	9	Manufacture and sale of mobile telecommunications equipment
Telrise (Cayman) Telecom Limited	Cayman Islands 23 March 2001	USD950,000 Ordinary	52.85	–	Research and development of telecommunications related products
Telrise Inc.	United States of America 13 October 2000	USD1,609,000 Ordinary	–	52.85	Research and development of telecommunications related technology
ZTE (USA) Inc.## (中興通訊美國 有限公司)	United States of America 10 November 1998	USD20,000 Ordinary	100	–	Sale of telecommunications equipment and provision of related technical services

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
ZTE do Brasil Ltda## (中興通訊(巴西) 有限責任公司)	Brazil 7 August 2002	USD200,000 Ordinary	100	–	Development, manufacture and sale of telecommunications related products and provision of related technical services
ZTE Future Tel Company, Limited ["Future Tel"] ## (韓國中興前景股份 有限公司)	Republic of Korea 6 September 1999	WON 4,275,530,000 Ordinary	54.14	–	Research and development of mobile phones
Congo-Chine Telecom S.A.R.L. ["Congo-Chine"] ## (剛中電信有限責任公司)	The Democratic Republic of Congo 14 November 2000	USD9,800,000 Ordinary	51	–	Construction and operation of telecommunications networks
Zhongxing Telecom Pakistan (Private) Limited## (中興通訊巴基斯坦(私人) 有限公司)	Islamic Republic of Pakistan 21 September 1998	Rupees10,000,000 Ordinary	92.99	–	Manufacture and sale of telecommunications systems equipment
ZTE (H.K.) Limited (中興通訊(香港) 有限公司)	Hong Kong 27 October 2000	HKD50,000,000 Ordinary	100	–	Marketing and sale of telecommunications systems equipment and provision of management services
Anhui Wantong Posts and Telecommunications Company, Limited ["Anhui Wantong"]#(i) (安徽皖通郵電股份 有限公司)	The PRC 16 April 1997	RMB22,214,400	51	–	Development, manufacture and sale of computer software and integrated information systems

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Anhui Wantong Iron Tower Installation Company, Limited ("Wantong Iron")#(iii) (安徽皖通鐵塔安裝有限公司)	The PRC 8 August 2001	RMB2,000,000	–	45.9 ###	Construction and installation of telecommunications infrastructure
Anhui Wantong Information System Integration Company, Limited ("Wantong Information")#(iii) (安徽皖通信息系統集成 有限責任公司)	The PRC 4 May 1999	RMB3,000,000	–	26.01 ###	Design and sale of telecommunications systems equipment, development of computer software and networking solutions
Telrise Nanjing Telecom Limited#(ii) (南京德瑞通訊技術 有限公司)	The PRC 22 April 2002	USD100,000	–	52.85	Research and development of telecommunications related products
ZTE (UK) Limited	United Kingdom 13 August 2001	GBP604,000 Ordinary	51	–	Sale of telecommunications systems equipment and provision of related technical services
ZTE Holdings (Thailand) Co., Ltd (iii)	Thailand 10 July 2002	Baht100,000 Ordinary	49	–	Investment holding
ZTE (Thailand) Co., Ltd.	Thailand 31 July 2002	Baht2,000,000 Ordinary	49	–	Sale of telecommunications systems equipment and provision of related technical services

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
000 ZTE Russia Co., Limited (中興通訊(俄羅斯) 有限責任公司)##	Russia 27 October 2003	USD760,000 Ordinary	100	–	Sale of telecommunications systems equipment and solutions and provision of related technical services
ZTE Wistron Telecom AB## (中興通訊歐洲研究所)	Sweden 19 March 2002	SEK1,000,000 Ordinary	100	–	Development of telecommunications systems equipment
ZTE Portugal – Projectos de Telecomunicacoes, Unipessoal, Lda	Portugal 19 September 2003	EUR50,000 Ordinary	–	100	Provision of telecommunications solutions and related technical services
ZTE Microelectronics Technology Co., Ltd. #(i) (深圳市中興微電子技術 有限公司)	The PRC 28 November 2003	RMB15,000,000	–	81	Design, manufacture and sale of integrated circuit products
Shenzhen Zhongxing Special Equipment Company, Limited #(i) (深圳市中興特種設備 有限責任公司)	The PRC 8 February 2003	RMB1,000,000	54	–	Development, manufacture and sale of telecommunications related products
ZTE Corporation Mexico, S. DE R. L DE C.V.## (中興通訊(墨西哥)可變資本 有限責任公司)	Mexico 8 April 2003	USD5,000 Ordinary	100	–	Sale of telecommunications products and provision of related technical services

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong New Pivot Technology & Service Company, Limited#(i) (廣東新支點技術服務 有限公司)	The PRC 27 February 2004	RMB5,000,000	90	–	Design, development and sale of telecommunications systems equipment and computer software and provision of related technical services
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited#(i) (深圳市中興通訊技術服務 有限責任公司)	The PRC 17 May 2004	RMB50,000,000	90	9	Development, manufacture and sale of telecommunications systems equipment
Shenzhen Changfei Investment Company, Limited ("Changfei")#(i) (深圳市長飛投資有限公司)	The PRC 6 February 2004	RMB30,000,000	51	–	Investment holding
Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited#(i) (上海中興通訊技術 有限責任公司)	The PRC 10 May 2004	RMB10,000,000	51	–	Development, manufacture and sale of computer software and telecommunications systems equipment
Shenzhen Kangquan Electromechanical Company, Limited ["Kangquan"] # (iii) (深圳市康銓機電有限公司)	The PRC 2 June 2003	RMB16,000,000	–	29.33 ###	Sale of telecommunications systems equipment and provision of related technical services
Shenzhen Lead Communications Company, Limited ["Lead"]#(iii) (深圳市立德通訊器材有限公司)	The PRC 17 June 2003	RMB10,000,000	–	31.88 ###	Sale of telecommunications systems equipment and provision of related technical services

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen Ruide Electronic Industrial Company, Limited # (iii) (深圳市睿德電子實業有限公司)	The PRC 27 April 2004	RMB8,700,000 Ordinary	–	32.76 ###	Sale of telecommunications systems equipment and provision of related technical services
ZTEi USA Inc ## (中興集訊(美國)公司)	United States of America 17 February 2004	USD95,000 Ordinary	–	80	Research and development of telecommunications related products
ZTE Kangxun Telecom Company India Private Ltd ("ZTE India")	India 15 September 2003	USD22,222 Ordinary	100	–	Manufacture and sale of telecommunications related products
Closed Joint Stock Company TK Mobile ("TK Mobile")	Tajikistan 27 November 2003	USD4,000,000 Ordinary	51	–	Construction and operation of telecommunications networks
Shanghai XingFei Technology Company, Limited # (iii) 上海興飛科技有限公司	The PRC 17 September 2004	RMB1,000,000	–	40.8 ###	Provision of after sale services of mobile phones
Zimax (Cayman) Holding Ltd ("Zimax")	Cayman Islands 13 August 2004	USD2,500,000 Ordinary	100	–	Investment holding
ZTE Malaysia Corporation sdn. bhd. ("ZTE Malaysia")	Malaysia 16 February 2004	USD60,000 Ordinary	100	–	Sale and distribution of telecommunications products and provision of related technical and after sale services
ZTE Romania S.R.L.	Romania 17 November 2004	USD100,000	100	–	Sale and distribution of telecommunications products and provision of related technical and after sale services

(i) These subsidiaries are registered as limited companies under the PRC law.

(ii) The subsidiary is registered as sino-foreign joint ventures under the PRC law.

(iii) The Group has unilateral controls over these subsidiaries.

The English names of these subsidiaries are directly translated from their Chinese names.

The Chinese names of these subsidiaries are directly translated from their registered names.

These subsidiaries are the subsidiaries of a non wholly-owned subsidiary of the Company, and accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	–	–	2,500	2,500
Share of net assets	7,786	5,319	–	–
	7,786	5,319	2,500	2,500

The Company's trade receivable balance with a jointly-controlled entity is disclosed in note 24 to the financial statements. The amounts due from the jointly-controlled entities are unsecured, interest-free and repayable on demand.

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place and date of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Beijing Zhongxing Telecom Ltd. ("Beijing Zhongxing")# (北京中興新通訊設備有限公司)	Corporate	The PRC 17 March 1998	RMB5,000,000	50	50	50	Sale of telecommunications systems equipment, computer network and peripheral devices and provision of consultancy and equipment leasing services
Beijing Zhongxing Intelligent Transportation Systems Ltd. ("Beijing Zhongxing Intelligent")# (北京中興智能交通系統工程有限公司)	Corporate	The PRC 24 April 2000	RMB5,000,000	35	30	35	Development, manufacture and sale of transportation monitoring and related telecommunications products
Bestel Communications Limited	Corporate	Republic of Cyprus 28 May 2001	CYP600,000 Ordinary	50	50	50	Provision of telecommunications solutions and related consultancy services

The English names of these jointly-controlled entities are directly translated from their Chinese names.

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20. INTERESTS IN ASSOCIATES

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	–	–	4,013	3,000
Share of net assets	8,845	300	–	–
	8,845	300	4,013	3,000

The Company's trade receivable balance with an associate is disclosed in note 24 to the financial statements. The amount due from the associate is unsecured, interest-free and repayable on demand.

Particulars of the principal associates are as follows:

Name	Business structure	Place and date of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Zhongxing Yuanjing Technology Co., Ltd. ("Beijing Yuanjing")# (北京中興遠景科技有限公司)	Corporate	The PRC 18 October 2000	RMB10,000,000	30	Research and development of telecommunications related products
KAZNURTEL Limited Liability Company	Corporate	Kazakstan 22 October 2004	USD3,000,000	49	Construction of CDMA network, sale, and distribution of related products, and provision of training and technical services
Shenzhen Weigao Semi-conductor Technology Co., Ltd.# (深圳市微高半導體科技有限公司)	Corporate	The PRC 15 June 2004	RMB10,000,000	20	Design, research, development and sale of semi-conductor products
Wuxi Kaier Technology Co., Ltd.# (無錫凱爾科技有限公司)	Corporate	The PRC 26 November 2004	RMB10,000,000	23	Development, manufacture and sale of camera lenses for mobile phone

The English names of these associates are directly translated from their Chinese names.

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21. LONG-TERM INVESTMENTS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at cost	45,021	10,514	40,264	8,264
Provision for impairment	(674)	(674)	–	–
	44,347	9,840	40,264	8,264

The directors considered that the carrying value of the unlisted equity investments approximates their estimated fair value.

22. INVENTORIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials	983,326	912,066	633,186	692,206
Work in progress	338,981	225,589	199,289	165,215
Finished goods	402,760	185,652	370,955	122,144
	1,725,067	1,323,307	1,203,430	979,565

The carrying amount of inventories carried at net realisable value included in the above balance was approximately RMB568,119,000 (2003: RMB217,437,000).

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23. CONSTRUCTION CONTRACTS

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from customers for contract work	2,752,024	3,652,991	3,414,540	3,919,395
Amount due to customers for contract work	(2,318,731)	(2,771,004)	(2,162,901)	(2,241,642)
	433,293	881,987	1,251,639	1,677,753
Contract costs incurred plus recognised profits less recognised losses to date	15,327,336	12,072,503	14,992,094	10,474,833
Less: Progress billings	(14,894,043)	(11,190,516)	(13,740,455)	(8,797,080)
	433,293	881,987	1,251,639	1,677,753

24. TRADE AND BILLS RECEIVABLES

Progress payment for construction contracts are 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 for a period of 90 days and are extendable up to 2 years depending on customer's credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

NOTES TO FINANCIAL STATEMENTS

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24. TRADE AND BILLS RECEIVABLES (continued)

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

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 6 months	4,252,421	4,716,359	4,901,198	5,283,612
Between 7 to 12 months	1,453,143	282,756	1,116,903	260,570
1 to 2 years	194,940	198,275	193,718	187,892
2 to 3 years	5,609	3,438	43,213	447
Over 3 years	6,156	105,901	1,835	102,259
	5,912,269	5,306,729	6,256,867	5,834,780
Current portion of trade and bills receivables	(5,912,181)	(5,203,773)	(6,256,867)	(5,733,056)
Long-term portion	88	102,956	-	101,724

The balances due from the ultimate holding company, subsidiaries, a jointly-controlled entity, an associate and related companies included in the above are as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Subsidiaries	-	-	587,821	755,156
The ultimate holding company	169	167	-	-
A jointly-controlled entity	2,354	6,419	2,354	6,419
An associate	4,197	4,016	4,197	4,016
Related companies	7,151	35,625	3,087	2,049
	13,871	46,227	597,459	767,640

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

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Prepayments	157,518	271,709	57,252	140,877
Deposits and other receivables	488,174	176,404	557,470	145,334
Due from subsidiaries	–	–	602,911	373,750
Due from related companies	5,609	8,528	4,894	7,913
Dividend receivable	–	–	1,871	851
	651,301	456,641	1,224,398	668,725

The amounts due from subsidiaries and related companies are unsecured, interest-free and repayable on demand.

26. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Note	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash and bank balances		4,775,748	3,556,548	3,766,385	2,667,069
Time deposits		2,822,475	113,404	2,696,780	71,006
		7,598,223	3,669,952	6,463,165	2,738,075
Less: Pledged bank deposits	29	(88,978)	(97,085)	(44,512)	(63,064)
Cash and cash equivalents		7,509,245	3,572,867	6,418,653	2,675,011

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27. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 6 months	4,180,450	4,195,701	6,688,650	5,600,115
Between 7 to 12 months	61,260	86,424	25,512	78,030
1 to 2 years	68,391	116,019	5,934	28,297
2 to 3 years	8,200	7,656	4,997	6,614
Over 3 years	22,810	23,668	23,509	19,459
	4,341,111	4,429,468	6,748,602	5,732,515

The balances due to the ultimate holding company, subsidiaries and related companies, included in the above are as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Subsidiaries	–	–	5,135,686	4,392,440
The ultimate holding company	51,168	23,464	–	3,052
Related companies	78,166	74,994	3,426	3,622
	129,334	98,458	5,139,112	4,399,114

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

28. OTHER PAYABLES AND ACCRUALS

	Note	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Receipts in advance		310,360	241,611	260,970	198,281
Other payables		998,087	1,042,750	718,953	651,324
Accruals		1,313,173	864,959	924,997	788,090
Due to related companies		313	2,262	313	313
Due to subsidiaries		–	–	512,665	405,884
Provision for warranties	32	186,227	160,573	186,227	157,819
		2,808,160	2,312,155	2,604,125	2,201,711

The balances due to subsidiaries and related companies are unsecured, interest-free and repayable on demand.

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29. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Bank loans:				
Secured	361,596	404,893	340,344	394,903
Unsecured	1,085,361	1,332,000	950,000	1,202,000
	1,446,957	1,736,893	1,290,344	1,596,903
Bank loans repayable:				
Within one year or on demand	421,695	977,893	340,344	917,903
In the second year	677,262	235,667	650,000	229,000
In the third to fifth years, inclusive	348,000	490,000	300,000	450,000
Beyond five years	–	33,333	–	–
	1,446,957	1,736,893	1,290,344	1,596,903
Portion classified as current liabilities	(421,695)	(977,893)	(340,344)	(917,903)
Long term portion	1,025,262	759,000	950,000	679,000

The Group and the Company's secured bank loans or banking facilities were secured by:

	Note	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Pledged deposits	26	88,978	97,085	44,512	63,064
Trade receivables		340,344	394,903	340,344	394,903
		429,322	491,988	384,856	457,967

Certain of the Group and Company's unsecured bank loans were guaranteed by:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
A shareholder of the ultimate holding company	–	87,000	–	87,000
Others	580,000	330,000	500,000	250,000
	580,000	417,000	500,000	337,000

The bank loan guaranteed by a shareholder of the ultimate holding company was fully repaid during the year.

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30. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefits plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted as at 31 December 2004 in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 34 "Employee benefits" by qualified actuaries of Watson Wyatt Hong Kong Limited. The present value of defined benefits obligations and current service costs are determined actuarially based on the projected unit credit method, which involves a number of assumptions and estimates including the rate of inflation, discount rate, employees' turnover ratio as well as mortality rate. Actuarial gains/(losses) are recognised by amortising the amount by which cumulative unrecognised gains/(losses) exceed 10% of the greater of the assets of the plan and the defined benefits obligation over the average expected future working lifetime of the active members of the plan.

The benefits obligation recognised in the balance sheet are as follows:

Group and Company

	2004 RMB'000	2003 RMB'000
Present value of the obligation	39,046	46,463
Unrecognised actuarial losses	(10,123)	(19,273)
Net liability in the balance sheet	28,923	27,190

Movements in the net liability recognised in the balance sheet during the year are as follows:

	2004 RMB'000	2003 RMB'000
Net liability at beginning of year	27,190	25,085
Benefit expenses recognised in the consolidated profit and loss account (note 6)	2,473	2,790
Pension payments made	(740)	(685)
Net liability at end of year	28,923	27,190

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30. PROVISION FOR RETIREMENT BENEFITS (continued)

The principal assumptions used in determining pension benefits obligation are shown below:

	2004	2003
(a) Discount rate	5%	3.5%
(b) The expected rate of increase in salary ranged from 1% to 7.5% per annum, which was based on the number of years of employment.		

The benefit expense recognised in the consolidated profit and loss account for the year is as follows:

	2004 RMB'000	2003 RMB'000
Current service cost	–	–
Interest cost on benefits obligation	1,581	1,626
Net actuarial losses recognised in the year	892	1,164
Benefit expenses included in staff costs (note 6)	2,473	2,790

31. OTHER LONG-TERM PAYABLES

Other long-term payables represent government grants which are unsecured, interest-free and have no fixed terms of repayment.

32. PROVISION FOR WARRANTIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At beginning of year	160,573	90,845	157,819	90,845
Additional provisions	129,930	106,310	129,930	103,556
Amounts utilised during the year	(104,276)	(36,582)	(101,522)	(36,582)
At 31 December 2004	186,227	160,573	186,227	157,819

In respect of telecommunications systems contracts, the Group and the Company provide warranties to their customers for twelve months after contract completion dates, during which free repair and maintenance services are provided. A provision for warranties is made at between 0.5% to 1.0% of the cost of equipment sold during the year, and is estimated based on the equipment return rate and past experience of the level of repairs and maintenance. The estimation is reviewed on an ongoing basis and revised where appropriate.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

32. PROVISION FOR WARRANTIES (continued)

In respect of handsets, the Group and the Company generally provide one-year warranty to their customers under which faulty products would be repaired or replaced. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and return.

33. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
At beginning of year	143,195	85,931	90,135	42,429
Increase/(decrease) during the year	(38,514)	57,264	(13,660)	47,706
At end of year	104,681	143,195	76,475	90,135
Deferred tax assets:				
Provision for doubtful other receivables	–	56,215	–	56,215
Provision against inventories	53,015	28,608	50,636	28,061
Provision for warranties	33,934	23,673	33,934	23,673
Provision for retirement benefits	4,350	4,079	4,350	4,079
Unrealised profit arising on consolidation	25,827	52,513	–	–
Deferred tax liabilities:				
Intangible assets	(9,973)	(18,032)	(9,973)	(18,032)
Government grants	(2,472)	(3,861)	(2,472)	(3,861)
Deferred tax assets, net	104,681	143,195	76,475	90,135

At 31 December 2003 and 2004, there were no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities and associates as the Group has no liability to additional tax should such amounts be remitted.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

34. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
Registered, issued, and fully paid		
State owned equity interest shares of RMB1.00 each	462,273	386,381
Legal pension A shares of RMB1.00 each	35,044	29,203
Individual A shares of RMB1.00 each	302,054	251,712
H shares of RMB1.00 each	160,151	–
	959,522	667,296

The movements in share capital are as follows:

	Number of shares in issue	Issued share capital RMB'000	Capital reserve RMB'000	Total RMB'000
At 1 January 2004	667,296,000	667,296	2,079,104	2,746,400
Bonus issues	133,459,200	133,459	–	133,459
Issue of H shares	160,151,040	160,151	3,574,571	3,734,722
Share issue expenses	–	–	(161,685)	(161,685)
Conversion of state owned equity interest shares	(1,384,590)	(1,384)	(29,475)	(30,859)
At 31 December 2004	959,521,650	959,522	5,462,515	6,422,037

Pursuant to an ordinary resolution passed on 5 May 2004, the Company issued 133,459,200 bonus shares of RMB1 each to the shareholders of the Company on the basis of one bonus A share for every five A shares held on 31 December 2003, credited as fully paid by way of capitalisation of an amount of RMB133,459,200 standing to the credit of the Company's retained profits.

On 9 December and 14 December 2004, 148,529,040 of the Company's H shares of RMB1 each and 11,622,000 additional H shares of RMB1 each, respectively, were issued at a price of HK\$22 (equivalent to approximately RMB23.32) per share. Of all the newly issued H Shares, 1,384,590 H shares were converted from the state owned equity interest shares. The aggregate net proceeds were approximately HK\$3,370,789,000 (equivalent to approximately RMB3,573,037,000) after deducting related expenses for the placing and initial public offering of approximately RMB161,685,000.

Pursuant to a resolution at an extraordinary general meeting held on 30 June 2004 and approvals from relevant government authorities, during the listing of the Company's H shares, certain of the Company's state owned equity interest shareholders converted an aggregate of 1,384,590 state owned equity interest shares into H shares and offered them in the placement of the Company's H shares. Net proceeds of approximately RMB30,859,000 obtained from the newly issued H shares were related to such conversion and such proceeds would be remitted to the State Social Security Fund in accordance with the relevant PRC government requirement.

The H shares rank pari passu in all material respects with the A shares of the Company.

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

31 December 2004

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 180 of the financial statements.

The capital reserves of the Group include the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate certain percentage of the statutory net profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issues by way of paid-up capital. The reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(b) Company

	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2003	556,080	2,190,320	315,235	1,696	(253,179)	111,216	2,921,368
Issue of bonus shares	111,216	(111,216)	-	-	-	-	-
Net profit from ordinary activities attributable to shareholders	-	-	-	-	1,241,786	-	1,241,786
Transfer from/(to) retained profits	-	-	161,141	-	(161,141)	-	-
Final 2002 dividend declared	-	-	-	-	-	(111,216)	(111,216)
Proposed final 2003 dividend	-	-	-	-	(200,188)	200,188	-
Exchange realignments	-	-	-	(153)	-	-	(153)
At 31 December 2003 and 1 January 2004	667,296	2,079,104	476,376	1,543	627,278	200,188	4,051,785
Final 2003 dividend declared	-	-	-	-	-	(200,188)	(200,188)
Issue of H shares	160,151	3,574,571	-	-	-	-	3,734,722
Conversion of state owned equity interest shares	(1,384)	(29,475)	-	-	-	-	(30,859)
Transfer from/(to) retained profits	-	-	174,342	-	(174,342)	-	-
Issue of bonus shares	133,459	-	-	-	(133,459)	-	-
Share issue expenses	-	(161,685)	-	-	-	-	(161,685)
Net profit from ordinary activities attributable to shareholders	-	-	-	-	150,233	-	150,233
Proposed final 2004 dividend	-	-	-	-	(239,880)	239,880	-
Exchange realignments	-	-	-	2,018	-	-	2,018
At 31 December 2004	959,522	5,462,515	650,718	3,561	229,830	239,880	7,546,026

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

35. RESERVES (continued)

(b) Company (continued)

At 31 December 2004, the Company had retained profits of approximately RMB229.8 million (2003: RMB627.3 million), after appropriation of proposed final dividend, as determined in accordance with the lower of either the amount determined under PRC GAAP or Hong Kong accounting standards, available for distribution by way of cash in kind.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2004 RMB'000	2003 RMB'000
Net assets acquired:		
Fixed assets	12,092	—
Inventories	23,663	—
Trade and bills receivables	70,545	—
Prepayments, deposits and other receivables	3,584	—
Cash and bank balances	7,848	—
Trade and bills payables	(80,299)	—
Tax payable	(557)	—
Other payables and accruals	(1,735)	—
Bank loans	(8,000)	—
Minority interests	(6,921)	—
	20,220	—
Negative goodwill on acquisition	(4,770)	—
	15,450	—
Satisfied by:		
Cash	15,450	—
	15,450	—

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Acquisition of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 RMB'000	2003 RMB'000
Cash consideration	(15,450)	–
Cash and bank balances acquired	7,848	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(7,602)	–

In April 2004, Changfei, a subsidiary of the Group, acquired 62.5% and 57.5% equity interests in Lead and Kangquan for cash considerations of approximately RMB6 million and RMB9 million, respectively.

The subsidiaries acquired during the year ended 31 December 2004 had no significant impact in respect of the cash flows for the Group's operating activities, investing activities and financing activities for the year.

The results of the subsidiaries acquired during the year ended 31 December 2004 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

(b) Disposal of a subsidiary

	2004 RMB'000	2003 RMB'000
Net assets disposed of:		
Fixed assets	–	2,879
Inventories	–	61
Trade and other receivables	–	10
Cash and bank balances	–	129
Other payables and accruals	–	(2,564)
	–	515
Gain on disposal of a subsidiary	–	64
	–	579
Satisfied by:		
Cash	–	579

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Disposal of a subsidiary (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2004 RMB'000	2003 RMB'000
Cash consideration	–	579
Cash and bank balances disposed of	–	(129)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	450

The subsidiary disposed of during the year ended 31 December 2003 had no significant impact in respect of the cash flows for the Group's operating activities, investing activities and financing activities for that year.

The results of the subsidiary disposed of in the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

37. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

Group and Company

	2004 RMB'000	2003 RMB'000
Bills discounted with recourse	440,885	975,202
Trade debtors factored with recourse	691,744	–
Guarantees given to banks in connection with facilities granted to third parties	–	12,840
Guarantees given to banks in respect of performance bonds	1,626,070	1,114,336
	2,758,699	2,102,378

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

31 December 2004

37. CONTINGENT LIABILITIES (continued)

- (b) On 26 April 2000, the Company approved and declared an one-off share bonus of approximately RMB34 million and RMB30 million to its then employees who had elected to participate in a Deferred Share Bonus Scheme (the "DSBS") with a term of either 3 years or 5 years. Pursuant to the DSBS, the total amount of bonus payable to each qualified employee was used to purchase a total of 1,884,250 A shares of the Company during 2001 and these A shares were locked up for a period of either 3 years or 5 years under the 3 years DSBS and 5 years DSBS until 20 April 2004 and 20 June 2006, respectively. The Company has guaranteed the employees that, upon disposal of these shares in 2004 and 2006, respectively, the disposal price would not be less than approximately RMB18.5 per share, after being adjusted for the Company's bonus issues in 2001, 2003 and 2004.

As at 31 December 2004, a total of 2,600,849 A Shares are subject to the guaranteed disposal price.

In the opinion of the directors, any resulting liabilities arising from the guaranteed disposal price under DSBS would not have material adverse impact on the Group's financial statements. Therefore, no provision in respect of such guarantee has been made in the financial statements.

38. OPERATING LEASE ARRANGEMENTS

The Group and Company leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 12 years.

At 31 December 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 RMB'000	2003 RMB'000
Within one year	74,350	38,724
In the second to fifth years, inclusive	67,542	39,918
After five years	7,431	3,151
	149,323	81,793

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group and the Company had the following commitments at the balance sheet date:

Capital commitments

	2004 RMB'000	2003 RMB'000
Land and buildings:		
Authorised, but not contracted for	–	296,684
Contracted, but not provided for	282,446	3,318
	282,446	300,002

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

40. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS

Ernst & Young is responsible for the audit of the financial statements prepared under Hong Kong accounting standards.

The effects on the net profit and the shareholders' equity arising from material differences between the consolidated financial statements prepared under PRC GAAP and Hong Kong accounting standards are summarised as follows:

	Notes	2004 RMB'000	2003 RMB'000 (Restated)
Net profit			
Net profit from ordinary activities attributable to shareholders under PRC GAAP		1,008,870	704,128
Add back /(deduct):			
Accounting standards differences:			
Recognition of government grants	(i)	38,630	26,312
Recognition of deferred bonuses	(ii)	(127,951)	71,701
Provision for retirement benefits	(iii)	(1,733)	(2,105)
Deferred development costs	(iv)	(38,763)	(35,314)
Other differences:			
Difference in accounting estimates in respect of revenue recognised using percentage of completion method for telecommunications systems contracts	(v)	(668,042)	504,084
Recognition of income tax and deferred tax	(vi)	94,881	(79,183)
Difference in accounting estimates in respect of provision for trade receivables, other receivables and prepayments and net realisable value of inventories	(vii)	553,402	(38,573)
Consolidation of subsidiaries	(viii)	112,653	(41,166)
Estimated useful lives of fixed assets	(ix)	132,988	(15,566)
Accrual of performance bonuses	(x)	167,554	(66,012)
Net profit from ordinary activities attributable to shareholders under Hong Kong accounting standards		1,272,489	1,028,306

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

31 December 2004

40. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS (continued)

	Notes	31 December 2004 RMB'000	31 December 2003 RMB'000 (Restated)
Shareholders' equity			
Shareholders' equity under PRC GAAP		9,174,439	4,810,414
Add back/(deduct):			
Accounting standards differences:			
Recognition of government grants	(i)	5,149	(33,340)
Recognition of deferred bonuses	(ii)	–	127,951
Provision for retirement benefits	(iii)	(28,923)	(27,190)
Deferred development costs	(iv)	66,487	108,418
Other differences:			
Difference in accounting estimates in respect of revenue recognised using percentage of completion method for telecommunications systems contracts	(v)	–	680,451
Recognition of income tax and deferred tax	(vi)	–	(95,567)
Difference in accounting estimates in respect of provision for trade receivables, other receivables and prepayments and net realisable value of inventories	(vii)	–	(546,355)
Consolidation of subsidiaries	(viii)	–	(124,310)
Estimated useful lives of fixed assets	(ix)	–	(132,988)
Accrual of performance bonuses	(x)	–	(167,554)
Shareholders' equity under Hong Kong accounting standards		9,217,152	4,599,930

(i) Government grants

Government grants for specific research and development projects are accounted for as specific payables under PRC GAAP. Whereas under Hong Kong accounting standards, such grants are accounted for as deferred income in the other payable or other long-term payable accounts.

Under PRC GAAP, the research and development costs are recognised as technology development costs in inventory to the extent of the granted amounts, and the specific payables thereof will be transferred to the inventory account to off-set the technology development costs upon completion of the projects.

Under Hong Kong accounting standards, the deferred income is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

40. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS (continued)

(ii) Recognition of deferred bonuses

Under the PRC GAAP, there is no specific standard, regulation or rules for the recognition of deferred bonuses. All the deferred bonuses are expensed as declared irrespective of whether or not the employee has qualified to entitle such bonuses.

Under Hong Kong accounting standards, the deferred bonuses are recognised when the employee is qualified to entitle the bonuses and charged to the profit and loss account over the required service period.

(iii) Provision for retirement benefits

Under the PRC GAAP, there is no specific standard, regulation or rules for the recognition of post-retirement benefits under defined retirement benefits plan. The costs of post-retirement benefits are expensed as incurred.

Under the Hong Kong accounting standards, the costs of providing these benefits under the defined retirement benefits plan is actuarially determined and recognised over the employees' service period.

(iv) Deferred development costs

Under PRC GAAP, all research and development costs are charged to the profit and loss account as incurred.

Under Hong Kong accounting standards, expenditures incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(v) Revenue recognition using percentage of completion method

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the stage of completion relating to the revenue recognition for telecommunications systems contracts is revised to be estimated by reference to the completion of the physical proportion of the work or the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the construction contracts recorded under PRC GAAP and Hong Kong accounting standards.

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

31 December 2004

40. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC GAAP AND HONG KONG ACCOUNTING STANDARDS (continued)

(vi) Income tax and deferred tax

Due to the differences on accounting estimates and differences between PRC GAAP and Hong Kong accounting standards, differences in respect of revenue and profit before tax had arisen in the preparation of the Group's financial statements under PRC GAAP and Hong Kong accounting standards. Deferred tax is recognised to account for the effect of temporary differences on income tax.

(vii) Provisioning rates

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of the provisioning rates applied for trade receivables, other receivables and prepayments and net realisable value of inventories.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the provisions accounted for under PRC GAAP and Hong Kong accounting standards.

(viii) Consolidation of subsidiaries

The differences represent historic discrepancies on the carrying values of interests in subsidiaries recorded by the Company under PRC GAAP as compared to the shareholders' equity and current account balances recorded in the financial statements of individual subsidiaries prepared under PRC GAAP or Hong Kong accounting standards.

(ix) Estimated useful lives of fixed assets

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of useful lives of certain fixed assets.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the depreciation charged under PRC GAAP and Hong Kong accounting standards.

(x) Accrual of performance bonuses

Performance bonuses were accrued upon approval in the preparation of the financial statements under Hong Kong accounting standards. Such performance bonuses were only charged to the profit and loss account upon actual payment in 2004 and included in the financial statements prepared under PRC GAAP for the year ended 31 December 2004.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

41. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	2004 RMB'000	2003 RMB'000
Beijing Zhongxing (北京中興新通訊設備有限公司)	Jointly-controlled entity	Purchase of raw materials Sale of finished goods	(a) (b)	312 12,757	7 3,091
Beijing Zhongxing New System Integrated Circuit Construction Co., Ltd # (北京中興新系統集成工程有限公司)	Jointly-controlled entity	Sale of finished goods	(b)	–	42
Beijing Zhongxing Intelligent (北京中興智能交通系統工程有限公司)	Jointly-controlled entity	Sale of finished goods	(b)	19,411	7,778
Beijing Yuanjing (北京中興遠景科技有限公司)	Associated company	Sale of finished goods	(b)	16,316	14,943
Zhongxingxin (深圳市中興新通訊設備有限公司)	Related party (i)	Sale of finished goods Purchase of raw materials	(b) (a)	2 297,726	7,397 397,180
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited # (深圳市中興新地通信器材有限公司)	Related party (ii)	Purchase of raw materials Sale of finished goods	(a) (b)	170,422 6,660	35,369 –
Shenzhen Zhongxing WXT Equipment Company, Ltd # [“Zhongxing WXT”] (深圳市中興維先通設備有限公司)	Related party (iii)	Purchase of raw materials Sale of finished goods	(a) (b)	126,176 1,849	113,237 1,417
Xian Microelectronics Technology Research Institute # [“Xian Microelectronics”] (西安微電子技術研究所)	Related party (iii)	Purchase of raw materials Sale of finished goods Corporate guarantee	(a) (b) (c)	14,160 61,480 –	12,952 34,884 87,000
Lead (深圳市立德通訊器材有限公司)	Related party (iv)	Purchase of raw materials Sale of finished goods	(a) (b)	46,503 41,098	78,711 32,257

NOTES TO FINANCIAL STATEMENTS

[Prepared under Hong Kong accounting standards]

31 December 2004

41. RELATED PARTY TRANSACTIONS (continued)

Name of related parties	Relationship with the Group	Nature of transactions	Pricing policy	2004 RMB'000	2003 RMB'000
Kangquan (深圳市康銓機電有限公司)	Related party (iv)	Purchase of raw materials	(a)	2,923	–
Shenzhen Zhongxing Information Technique Co., Ltd.# (深圳市中興信息技術有限公司)	Related party (v)	Purchase of raw materials Sale of finished goods	(a) (b)	8,542 4,018	2,595 10,628
The Government of the Democratic Republic of Congo	Related party (vi)	Corporate guarantee	(c)	80,000	80,000
Shenzhen Zhongxing Xinyu FPC Company Limited (深圳市中興新宇軟電路有限公司)	Related party (ii)	Purchase of raw materials	(a)	7,823	–
Shenzhen Zhongxing Development Company Limited (深圳中興發展有限公司)	Related party (vii)	Sale of finished goods	(b)	3,489	–
Shenzhen Gaodong Hua Telecommunication Technique Company, Limited (深圳市高東華通信技術有限公司)	Related party (vii)	Purchase of raw materials	(a)	14,080	–
Chung Hing (Hong Kong) Development Company Limited (中興香港發展有限公司)	Related party (v)	Purchase of raw materials	(a)	1,755	–

The English names of these companies are directly translated from their Chinese names.

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Notes:

- (a) The purchase of raw materials were made in accordance with published prices and conditions similar to those offered by the supplier to its major customers.
- (b) The sale of finished goods were made in accordance with published prices and conditions offered to the major customers of the Group.

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong accounting standards)

31 December 2004

41. RELATED PARTY TRANSACTIONS (continued)

Notes:(continued)

- (c) The guarantees in respect of bank borrowings were provided by related parties at nil consideration.
 - (i) Zhongxingxin is the ultimate holding company of the Company.
 - (ii) Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited and Shenzhen Zhongxing Xinyu FPC Company Limited are controlled and beneficially owned by Zhongxingxin, the ultimate holding company.
 - (iii) Zhongxing WXT and Xian Microelectronics are shareholders of Zhongxingxin, the ultimate holding company.
 - (iv) Changfei was established in the PRC in February 2004 with 51% equity interests held by the Group. In April 2004, Changfei acquired 62.5% and 57.5% equity interests of Lead and Kangquan, respectively, which became subsidiaries of the Group. Further details of the acquisitions were disclosed in note 36(a). Before the acquisition of Lead and Kangquan by Changfei, Zhongxingxin and Zhongxing WXT held 45% and 55% equity interests in Lead and Kangquan, respectively.
 - (v) Shenzhen Zhongxing Information Technique Co., Ltd. and Chung Hing (Hong Kong) Development Company Limited are controlled and beneficially owned by a director of the Company.
 - (vi) The Government of the Democratic Republic of Congo is the minority shareholder of Congo-Chine, a subsidiary of the Group.
 - (vii) Shenzhen Zhongxing Development Company Limited and Shenzhen Gaodong Hua Telecommunication Technique Company, Limited as controlled and beneficially owned by Zhongxing WXT, a shareholder of Zhongxingxin, the ultimate holding company.

42. POST BALANCE SHEET EVENTS

There were no significant events after 31 December 2004.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2005.

DOCUMENTS AVAILABLE FOR INSPECTION

1. Text of the 2004 annual report with the signature of the Chairman of the Board of Directors;
2. Original copies of the Group's audited financial statements and consolidated financial statements for the year ended 31 December 2004 prepared in accordance with the PRC GAAP and Hong Kong accounting standards duly signed by the Company's legal representative, financial controller and chief accounting officer;
3. Original copy of the audit report with stamp of the certified public accountants and duly signed and sealed by the registered accountant;
4. All original copies of the Company's released documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News during the reporting period;
5. Articles of Association of the Company.

By order of the Board
Hou Weigui
Chairman
11 April 2005

SPECIAL EXPLANATORY STATEMENT

Specific Report Relating to Share of Funds by The Controlling Shareholder and its Connected Parties of ZTE CORPORATION

Shen Hua (2005) Zhuan Shen Zi No. 102

To: Shenzhen Securities Regulatory Committee, CSRC

We, as the certified public accountants responsible for auditing the consolidated financial statements of ZTE Corporation ("ZTE") for 2004, have issued this specific report relating to share of funds by the controlling shareholder and its connected parties in accordance with "Notice on Certain Issues Relating to Standardization of Fund Transfer between Listed Companies and Their Connected Parties and Guarantees Provided by Listed Companies" (Zheng Jian Fa [2003] No.56) issued by CSRC.

I. We noted the following information relating to funds shared by the connected parties of ZTE:

1. As at 31 December 2004, the balance of listed company's funds shared by connected parties was RMB11.43 million.
2. Listed company's funds misused by connected parties:
 - (1) There was no misuse of listed company's funds by connected parties as at 31 December 2004;
 - (2) Listed company's funds misused by the substantial shareholder and its controlled enterprises:

Neither the substantial shareholder nor its controlled enterprises have misused any funds at the beginning or end of period, nor have the substantial shareholder and its controlled enterprises misused any funds during the reporting period.

This report has been prepared in accordance with the requirements of CSRC and its representative organization and cannot be used for any other purpose. The certified public accountants and accounting firm preparing this report shall not be responsible for any consequences arising from the inappropriate use of this report.

Shenzhen Dahua Tiancheng Certified Public Accountants

Shenzhen, the PRC

Wu Jianhui

Certified Public Accountants in the PRC

Liu Yaohui

Certified Public Accountants in the PRC

10 April 2005

SPECIAL EXPLANATORY STATEMENT

Statements Relating to the Share of Funds of Listed Company by Connected Parties

Unit: in '000 RMB

										Whether it amounts to misuse of funds as prohibited by Rule No. 56
			Balance at Beginning of Period	Transaction amounts of Borrower	Transaction amounts of Lender	Balance at End of Period	Provision for Bad Debts	Method and Reason of Share of Funds repayment		
Name of Connected Party	Relationship with the Listed Company	Accounting entry	D	E	F	G	H	I	J	K
A	B	C	D	E	F	G	H	I	J	K
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	Controlling shareholder of the Company	Prepayment	700	660	1,360	-	-	Normal purchase and sales	Assets	No
Shenzhen Zhongxing Information Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Account receivables	2,180	4,020	4,950	1,250	-	Normal purchase and sales	Cash	No
Shenzhen Zhongxing Information Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Prepayment	5,260	-	2,590	2,670	-	Normal purchase and sales	Assets	No
Shenzhen Zhongxing Information Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Other receivables	1,040	-	-	1,040	-	Deposit	Outstanding	No
Beijing Zhongxing Telecom Equipment Ltd.	A jointly-controlled entity of the Company	Account receivables	1,340	12,760	14,940	(840)	-	Normal purchase and sales	Cash	No
Beijing Zhongxing Yuanjing Technology Co., Ltd.	An associate of the Company	Account receivables	4,020	16,320	17,150	3,190	-	Normal purchase and sales	Cash	No
Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited	A subsidiary of the controlling shareholder of the Company	Account receivables	-	70	70	-	-	Normal purchase and sales	Cash	No
Shenzhen Zhongxing WXT Equipment Company, Ltd.	A shareholder of the Company's controlling shareholder	Prepayment	1,000	-	490	510	-	Normal purchase and sales	Assets	No
Lishan Microelectronics Technology Research Institute	A shareholder of the Company	Other receivables	570	-	-	570	-	Deposit	Outstanding	No
Shenzhen Zhongxing Development Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Account receivables	-	3,490	510	2,980	-	Normal purchase and sales	Cash	No
Beijing Xieli Chaoyue Science Technology Co., Ltd.	An investee company of a shareholder of the Company's controlling shareholder	Account receivables	-	270	270	-	-	Normal purchase and sales	Cash	No
Xi'an Microelectronics Technology Research Institute	A shareholder of the Company's controlling shareholder	Other receivables	60	-	-	60	-	Deposit	Outstanding	No

ZTE中兴 中兴通讯股份有限公司
ZTE CORPORATION