ZTE中兴 中兴通讯股份有限公司
ZTE CORPORATION

Annual Report 2009

stock code : 000063.SZ 763.HK

Important

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

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

This annual report has been considered and approved at the second meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Hou Weigui, Chairman, to vote on his behalf. Mr. Li Jin, Independent Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Chen Naiwei, Independent Director, to vote on his behalf. Mr. Tan Zhenhui, Independent Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Chen Naiwei, Independent Director, to vote on his behalf.

There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this annual report.

The respective financial statements of the Group for the year ended 31 December 2009 were prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs") and with Hong Kong Financial Reporting Standards ("HKFRSs") respectively, and had been audited by Ernst & Young Hua Ming and Ernst & Young, and an unqualified auditors' report has been issued by each of them.

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

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Definitions

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

"Company" or "ZTE"	ZTE Corporation, a joint stock limited company incorporated in China on 11 November 1997 under the Company Law of the People's Republic of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange respectively
"Articles of Association"	The Articles of Association of ZTE Corporation
"Group"	ZTE and one or more of its subsidiaries
"Board of Directors"	The board of directors of the Company
"Supervisors"	Members of the supervisory committee of the Company
"China" or "PRC"	People's Republic of China
"ITU"	International Telecommunications Union, a specialised agency for telecommunications within the United Nations, the primary aim of which is to coordinate the operation of telecommunications network and services and advance the development of communications technology
"China Mobile"	China Mobile Communications Corporation and its subsidiaries
"China Telecom"	China Telecommunications Corporation and its subsidiaries
"China Unicom"	China United Network Communications Group Corporation and its subsidiaries
"CSRC"	China Securities Regulatory Commission
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange of China
"Shenzhen CSRC"	The CSRC Shenzhen Bureau
"Hong Kong Stock Exchange Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"HKFRSs"	Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations
"PRC ASBEs"	Generally accepted accounting principles in China
"CASC"	China Aerospace Science and Technology Corporation and its subsidiaries
"CASIC"	CASIC (Group) Company, Limited and its subsidiaries
"Xi'an Microelectronics"	Xi'an Microelectronics Technology Research Institute

"Zhongxing WXT"	Shenzhen Zhongxing WXT Equipment Company Limited
"Zhongxingxin"	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited
"Zhongxing Xindi"	Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited
"Zhongxing Xinyu"	Shenzhen Zhongxing Xinyu FPC Company, Limited
"Zhongxing Xinzhou"	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited
"ZTE Kangxun"	Shenzhen ZTE Kangxun Telecom Company Limited
"Zhongxing Software"	Shenzhen Zhongxing Software Company, Limited
"ZTE HK"	ZTE (H.K.) Limited
"Changfei"	Shenzhen Changfei Investment Company, Limited
"Hongde"	Shenzhen Hongde Battery Company, Limited
"Kangquan"	Shenzhen Kangquan Electromechanical Company, Limited
"Lead"	Shenzhen Lead Communications Company, Limited
"Ruide"	Shenzhen Ruide Electronic Industrial Company, Limited
"Fudekang"	Shenzhen Fudekang Electronics Company Limited
"Nanchang Xingfei"	Nanchang Xingfei Technology Company Limited

Glossary

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

3G	Third-generation mobile networks supporting peak data rates of 144 Kbps at mobile user speeds, 384 Kbps at pedestrian user speeds and 2 Mbps in fixed locations (peak speeds), although some initial deployments were configured to support just 64 Kbps. ITU coordinates 3G standards through its IMT-2000 project and key standards bodies such as 3GPP and 3GPP2.
CDMA	Code division multiple access, one of the standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all speech and data bits, sends a scrambled transmission of the encoded speech over the air and reassembles the speech in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations.
FTTX	FTTX Abbreviation of “Fiber-to-the-X”, a collective name given to various methods for fiber access. FTTX commonly includes: FTTN (Fiber-to-the-Node), FTTC (Fiber-to-the-Curb), FTTB (Fiber-to-the-Building), FTTH (Fiber-to-the-Home).
GSM	A global system for mobile communications, a digital cellular phone system standard that originated in Europe. It is deployed in more than 170 countries and uses a TDMA radio propagation scheme.
IP	Internet protocol, as more specifically defined in RFC 791, the primary purpose of which is to define packet architecture and address format.
PTN	Packet based Transport Network. In contrast to the traditional TDM mode, PTN transmits data flow in packets. PTN is a novel integrated equipment utilizing IP packet-based internal audit and incorporating traditional TDM user habits.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed in China to support voice and data transmission.
WCDMA	Wideband CDMA, a UMTS standard for 3G digital mobile networks adopting CDMA technologies to provide enhanced capacity for voice with a theoretical maximum data rate of 3Mbps.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.
xPON	Optical access that applies WDM technology with optical fiber as transmission medium, enabling high access bandwidth and end-to-end POS (passive optical splitting) transmission. xPON has a significant edge over other optical access technology and comprises EPON and GPON.
Service network	Built upon the access network/carrying network/core network to provide value-added services to users, the service network comprises the service engine (SMS centres, colour ringtone colours and WAP), the service platform and various value-added services (prepaid services, colour ringtone, VPN, paging centres, SMS, colour messaging, WAP, positioning and payments).

Access network	Located in the public telecommunications network as an interface between the local switchboard and users, the primary function of which is to facilitate user access to the core network. The access network is formed by a series of equipment between the service node interface (SNI) and the user-network interface (UNI).
Carrying network	Carrying level network that provides the basic carriage function for the services. It directs each service information flow from its source to the destination according to various service requirements and modulates network resources on the basis of the attributes of these requirements to ensure the functionality and performance of these services, providing QoS assurance and network safety assurance for communications of different types and natures.
Core Network	A mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
LTE	LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth.
Wimax	Wimax (World Interoperability for Microwave Access) is a MAN broadband wireless access technology using OFDM on the basis of IEEE802.16 Standard to support high-speed data access. Currently the technology is being developed towards compatibility with fully mobile cellular networks and has become one of the 3G technology standards defined by ITU.

Company Profile

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

In November 1997, the Company conducted an initial public offering of A shares for listing on the Shenzhen Stock Exchange. The Company is currently the largest telecommunications equipment manufacturer in China's A share market in terms of market capitalisation, operating revenue and net profit. In December 2004, the Company conducted an initial public offering of H shares for listing on the Main Board of the Hong Kong Stock Exchange, making the Company the first A-share company to be listed in the Main Board of Hong Kong.

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

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the global telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its telecommunications products in China with longstanding business ties with China's leading telecommunications service providers, including China Mobile, China Telecom and China Unicom, etc. With respect to the global telecommunications market, the Group has provided premium products and services with high price-performance ratios to over 500 customers in more than 140 countries and regions around the world, having established long-term business cooperation with various global telecommunications service providers including France Telecom, British Telecom, Vodafone, Telecom Australia and Hutchison Telecom, etc.

Corporate Information

1.	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2.	Legal representative	Hou Weigui
3.	Secretary to the Board of Directors/Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong Li Fei
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	fengjianxiong@zte.com.cn
4.	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	fengjianxiong@zte.com.cn
	Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
5.	Authorised representatives	Yin Yimin Block 710, Liantang Pengji Industrial Zone, Luohu District, Shenzhen, People's Republic of China
		Feng Jianxiong c/o ZTE Corporation No. 55, Hi-tech Road South, Shenzhen, People's Republic of China

Corporate Information

6.	Newspapers designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkex.com.hk
	Place where this report is available for inspection	No. 55, Hi-tech Road South, Shenzhen, People's Republic of China
7.	Listing information	A shares Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 Bonds Shenzhen Stock Exchange Abbreviated name of bond: 中興債1 Bond code: 115003 H shares Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
8.	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
9.	Legal advisers *As to Chinese law*	Jun He Law Offices 20th Floor, China Resources Building, Beijing, People's Republic of China
	As to Hong Kong and US law	Morrison & Foerster 33/F, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong

10. Auditors

PRC	Ernst & Young Hua Ming 21/F, China Resources Building, 5001 Shennan Dong Road, Shenzhen, Guangdong Province, People's Republic of China
Hong Kong	Ernst & Young 18/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

11. Other relevant information

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

Chairman's Statement

DEAR SHAREHOLDERS,

I am pleased to present to you the report for the financial year ended 31 December 2009. On behalf of the Board of Directors, I would like to express sincere gratitude for the concern and support you have shown towards ZTE.

2009 has been a most difficult year for China's economy, with national exports declining by a significant margin. Nevertheless, the Group overcame the enormous challenge and maintained steady progress in scale and profit by capturing market opportunities which were rare, while continuing to improve its corporate governance regime. Our achievements during the year are summarized as follows:

OPERATING RESULTS

The Group's operating revenue for 2009 amounted to RMB60.273 billion, representing a year-on-year growth of 36.08%, while net profit attributable to shareholders of the parent company grew 48.06% to RMB2.458 billion. Basic earnings per share amounted to RMB1.40. The Group's international business continued to enjoy stable growth in 2009, reporting revenue of RMB29.869 billion, an 11.34% growth over the previous year, to account for 49.56% of the Group's overall operating revenue.

BUSINESS DEVELOPMENT

Against an extremely volatile global financial environment and intense competition in 2009, the Group succeeded in breaking new grounds while ensuring sustainable growth in its mainstream products, markets as well as carrier-customers. While new ideas and developments such as Mobile Internet, Internet of Things and Cloud Computing have had an enormous impact on the traditional telecommunications industry, they have also ushered in a unique period of differentiation for the evolving telecommunications industry. By capitalising on its structural differentiation, the Group continued to enhance its market position while sustaining stable business development.

For the Group, 2009 was underpinned by steady upgrades in overall product quality and marked improvements in terms of customer satisfaction, as it reported significant breakthroughs and growth in mainstream products such as carriers' networks, access networks, GSM and terminals. In the domestic market, the Group's position as a leading supplier and business partner for major customers has been significantly enhanced with the benefit of large-scale 3G construction. Elsewhere, the Group reported continuous growth in the international market on the back of its cost advantage, technological edge and financial strengths, gaining new grounds in several high-end markets.

The Group's strategy of internationalization was further implemented in its organisational structure and evaluation system in 2009, with the objective of improving its core competitiveness on a continuous basis. With ongoing optimization in project-based management and market-driven research and development, the standards of our market and R&D management have been significantly enhanced.

CORPORATE GOVERNANCE

In compliance with the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Rules Governing the Listing of Securities on the Shenzhen Stock Exchange and relevant laws and regulations of the CSRC, the Company has further advanced its corporate governance initiatives on top of the specific requirements for listed companies in 2009. In accordance with CSRC Document 2008 No. 57, the Company revised the provisions of its Articles of Association on its cash dividend policy and formulated certain new regulations, including the Specific System for the Selection and Appointment of Accountants' Firm and the System for the Registration of Owners of Insider Information. Our corporate governance regime has been further regulated and improved as a result.

CORPORATE SOCIAL RESPONSIBILITY

The Group published a new mission statement on corporate social responsibility in 2009 that incorporated environment-friendly initiatives in product development, manufacturing, supply-chain, logistics and engineering, as it strived to develop a sustainable "green" network in a joint effort with the carriers, while encouraging commitment to social responsibility on the part of its up/downstream business associates through enhanced supply-chain management and customer training. The Group is currently in the process of implementing and incorporating the United Nations Global Compact and its ten principles in its operations and corporate culture, after officially becoming a signatory to the Compact in 2009. Corporate social responsibility has become an integral part of our corporate values, and our efforts in this regard have been widely recognized by governments, international organizations and media.

DIVIDEND DISTRIBUTION

In view of the Group's solid operating results in 2009 and taking into account its overall financial conditions and cash flow, the dividend distribution proposal dividend of RMB3 (including tax) for every 10 shares recommended by the Board of Directors will be as follows: A bonus issue of 5 shares for every 10 shares held and a cash dividend of RMB3 (including tax) for every 10 shares.

FUTURE PROSPECTS

In the year ahead, 3G networks, optical communications products and terminals will be among the major drivers for investments in the domestic market. An expedited integration process is also expected to facilitate growth in the market for new communications equipment. Internationally, the telecommunications industry should embrace stable growth amid global economic recovery, while investments in equipment and terminal products are expected to increase in line with large-scale construction of 3G networks around the world, particularly in the Asia Pacific. Given the new market situation, it would be a matter of priority for the Group to work actively in response to the government's call for the development of strategic new industries, reinforce its strategy of internationalization, enhance its overall competitive strengths and identify potential business opportunities in the domestic and foreign markets.

OUR WORK IN 2010 WILL BE FOCUSED ON THE FOLLOWING:

In the coming year, the Group will increase its investment in the overseas market and enhance its marketing capabilities and ability to provide integrated solutions. We will seek to optimize our global network by increasing customer satisfaction with the provision of high-quality networks. Meanwhile, we will assure that our market share in the domestic market is maintained or even enlarged, striving to achieve stable development in 2010 in the domestic and international markets, on the back of our substantial growth at home in 2009.

The Group will continue to pursue internationalization with greater depth in a bold and venturous spirit. As we seek to extend our lead in the market, we will confront competition with a keen sense of crisis that forbids us to slip into complacency or hotheadedness, taking one step at a time to realize the goal of becoming a world-class enterprise while continuing to deliver sound results to our shareholders and the community.

Hou Weigui
Chairman

Shenzhen, the PRC
9 April 2010

Major Events of the Group

February 2009

ZTE's LTE-interface next-generation amalgamated solution was showcased in the Mobile World Congress 2009 held in Barcelona.

March 2009

Hong Kong carrier CSL NWM (CSL New World Mobility) and ZTE jointly announced the official commercial application of the world's first SDR-based HSPA+ network, featuring a download speed of 21Mbps.

May 2009

ZTE Chairman Mr. Hou Weigui was named recipient of the 5th Yuan Baohua Enterprise Management Gold Award.

May 2009

ZTE unveiled the world's first symmetrical 10G EPON equipment sampler.

July 2009

ZTE partnered with Qualcomm to facilitate significant capacity expansion and functional enhancement of the WCDMA system.

September 2009

ZTE won the UMTS contract of Telenor, an Europe-based multinational carrier.

November 2009

ZTE won the Best Global CDMA Equipment Manufacturer 2009 Award.

December 2009

ZTE won 3 major awards, including the Most Competitive PTN Solution Award.

December 2009

ZTE was named among “China’s Most Respected Enterprises” for 5 years in a row.

December 2009

ZTE was selected by KPN as contractor for the building HSPA networks in Germany and Belgium.

Accounting and Financial Data Highlights

(I) MAJOR FINANCIAL DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in millions

Item	Amount
Operating profit	2,064.2
Total profit	3,324.7
Net profit attributable to shareholders of the listed company	2,458.1
Net profit after extraordinary items attributable to shareholders of the listed company	2,338.5
Net cash flow from operating activities	3,729.3

Extraordinary items and amounts that have been deducted are as follows:

Unit: RMB in millions

Extraordinary items	Amount
Government grant recognised in current profit and loss [Note]	168.6
Other non-operating income	102.9
Less: Gains/losses arising from the disposal of non-current assets	26.7
Other non-operating expenses	104.1
Effect of income tax	21.1
Total	119.6

Note: With the exception of government grants which were closely related to the ordinary business operations of the Company and received in fixed amounts on a continuous basis in accordance with national policies and designated standards.

(II) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST THREE YEARS PREPARED IN ACCORDANCE WITH PRC ASBEs

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

Unit: RMB in millions

	For the year ended 31 December 2009	For the year ended 31 December 2008	Year-on-year change	For the year ended 31 December 2007
Total operating revenue	**60,272.6**	44,293.4	36.08%	34,777.2
Total profit	**3,324.7**	2,262.5	46.95%	1,727.7
Net profit attributable to shareholders of the listed company	**2,458.1**	1,660.2	48.06%	1,252.2
Net profit after extraordinary items attributable to shareholders of the listed company	**2,338.5**	1,548.1	51.06%	1,245.8
Net cash flow from operating activities	**3,729.3**	3,647.9	2.23%	88.4
	As at 31 December 2009	As at 31 December 2008	Year-on-year change	As at 31 December 2007
Total assets	**68,342.3**	50,865.9	34.36%	39,229.6
Owners' equity attributable to shareholders of the listed company	**16,825.3**	14,249.5	18.08%	12,137.2
Share capital	**1,831.3**	1,343.3	36.33%	959.5

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

Item	For the year ended 31 December 2009	For the year ended 31 December 2008	Year-on-year change	For the year ended 31 December 2007
Basic earnings per share (RMB/share)	**1.40**[Note1]	0.95[Note2]	47.37%	0.72[Note2]
Diluted earnings per share (RMB/share)	**1.35**[Note1]	0.93[Note2]	45.16%	0.71[Note2]
Basic earnings per share after extraordinary items (RMB)	**1.33**[Note1]	0.89[Note2]	49.44%	0.71[Note2]
Fully diluted return on net assets (%)	**14.61**	11.65	Increase by 2.96 percentage points	10.32
Weighted average return on net assets (%)	**15.83**	12.36	Increase by 3.47 percentage points	10.94
Fully diluted return on net assets after extraordinary items (%)	**13.90**	10.86	Increase by 3.04 percentage points	10.26
Weighted average return on net assets after extraordinary items (%)	**15.06**	11.52	Increase by 3.54 percentage points	10.88
Net cash flow from operating activities per share (RMB)	**2.12**[Note3]	2.09[Note4]	1.44%	0.05[Note4]

Item	As at 31 December 2009	As at 31 December 2008	Year-on-year change	As at 31 December 2007
Net asset per share attributable to shareholders of the listed company (RMB)	**9.55**[Note3]	8.16[Note4]	17.03%	6.95[Note4]

Note 1: Following the implementation of profit distribution and capitalisation of capital reserve for 2008 and the Phase I Share Incentive Scheme during 2009, the total share capital of the Company was increased from 1,343,330,310 shares to 1,831,336,215 shares, including 69,737,523 restricted shares remaining in lock-up. Basic earnings per share for 2009 in the above table is calculated on the basis of 1,752,691,606 shares, namely the weighted average number of ordinary share capital after deducting restricted shares remaining in lock-up. Diluted earnings per share for 2009 is calculated on the basis of the weighted average potentially dilutive ordinary share capital of 1,822,429,129 shares, being the sum of 1,752,691,606 shares and 69,737,523 restricted shares under the Phase I Share Incentive Scheme remaining in lock-up. Following the completion of H share placing under the general mandate on 21 January 2010, the total share capital of the Company was increased from 1,831,336,215 shares to 1,889,631,015 shares. Following the expiry of the Company's "ZXC1" Warrants on 12 February 2010 and the exercise of 23,348,590 "ZXC1" Warrants, the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares. Basic earnings per share of 2009 was RMB1.33 per share, calculated on the basis of the total shares capital of 1,911,154,456 shares as at the date of this report after the deduction of 69,737,523 restricted shares remaining in lock-up.

Note 2: Basic earnings per share of 2008 and 2007 as set out in the above table is based on a total share capital of 1,746,329,402 shares after the implementation of the Company's profit distribution and capitalisation from capital reserve for 2008. Diluted earnings per share for 2008 is calculated on the basis of the weighted average ordinary share capital of 1,793,083,149 shares, being the sum of 1,746,329,402 shares and 46,753,747 potentially dilutive ordinary shares arising from restricted shares under the Phase I Share Incentive Scheme in 2008. Diluted earnings per share for 2007 is calculated on the basis of the weighted average ordinary share capital of 1,763,330,765 shares, being the sum of 1,746,329,402 shares and 17,001,363 potentially dilutive ordinary shares arising from restricted shares under the Phase I Share Incentive Scheme in 2007.

Note 3: Net cash flow per share from operating activities and net assets per share attributable to shareholders of the listed company for 2009 set out in the above table are calculated on the basis of 1,761,598,692 shares, namely share capital of 1,831,336,215 shares as at the end of 2009 less 69,737,523 restricted shares remaining in lock-up.

Note 4: Net cash flow per share from operating activities and net assets per share attributable to shareholders of the listed company for 2008 and 2007 set out in the above table are calculated on the basis of 1,746,329,402 shares, namely total share capital after the implementation of the 2008 profit distribution plan.

Accounting and Financial Data Highlights

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

Unit: RMB in millions

	Year ended 31 December				
Results	**2009**	2008	2007	2006	2005
Revenue	**60,272.6**	44,293.4	34,777.2	23,214.6	21,740.7
Cost of sales	**(41,667.8)**	(29,911.5)	(23,415.0)	(15,365.9)	(14,101.7)
Gross profit	**18,604.8**	14,381.9	11,362.2	7,848.7	7,639.0
Other income and revenue	**1,723.5**	1,295.7	1,028.0	724.7	516.9
Research and development	**(5,781.6)**	(3,994.1)	(3,210.4)	(2,832.7)	(1,959.5)
Selling and distribution costs	**(7,157.8)**	(5,401.0)	(4,531.5)	(3,274.7)	(3,186.4)
Administrative expenses	**(2,735.2)**	(2,190.0)	(1,718.2)	(1,097.6)	(1,095.4)
Other expenses	**(603.2)**	(1,159.7)	(898.2)	(191.5)	(128.6)
Profit from operating activities	**4,050.5**	2,932.8	2,031.9	1,176.9	1,786.0
Finance costs	**(751.7)**	(690.2)	(328.3)	(153.7)	(175.9)
Share of profit and loss of jointly controlled entities and associates	**26.0**	19.9	24.1	7.5	(4.2)
Profit before tax	**3,324.8**	2,262.5	1,727.7	1,030.7	1,605.9
Tax	**(629.1)**	(350.6)	(276.2)	(127.1)	(179.9)
Profit before minority interests	**2,695.7**	1,911.9	1,451.5	903.6	1,426.0
Attributable to:					
Minority interests	**(237.6)**	(251.7)	(199.3)	(136.6)	(138.3)
Attributable to:					
Shareholders of parent company	**2,458.1**	1,660.2	1,252.2	767.0	1,287.7

Unit: RMB in millions

	31 December				
Assets and liabilities	**2009**	2008	2007	2006	2005
Total assets	**69,464.9**	52,228.8	41,034.4	26,787.2	22,464.0
Total liabilities	**51,516.0**	37,045.3	28,146.0	15,461.4	11,742.8
Minority interests	**1,123.6**	934.0	751.2	561.9	470.7
Shareholders' equity attributable to the parent company	**16,825.3**	14,249.5	12,137.2	10,763.9	10,250.5

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

Item	2009	2008	2007	2006	2005
Basic earnings per share (RMB/share)	**1.40**[Note1]	0.95[Note2]	0.72[Note2]	0.44[Note2]	0.74[Note2]
Net asset per share (RMB/share)[Note3]	**9.55**[Note1]	8.16[Note2]	6.95[Note2]	6.16[Note2]	5.87[Note2]
Return on net assets[Note3]	**14.61%**	11.65%	10.32%	7.13%	12.56%

Note 1: Following the implementation of profit distribution and capitalisation of capital reserve for 2008 and the Phase I Share Incentive Scheme during 2009, the total share capital of the Company was increased from 1,343,330,310 shares to 1,831,336,215 shares, including 69,737,523 restricted shares remaining in lock-up. Basic earnings per share for 2009 in the above table is calculated on the basis of 1,752,691,606 shares, namely the weighted average number of ordinary share capital after deducting restricted shares remaining in lock-up. Net asset per share for 2009 in the above table is calculated on the basis of 1,761,598,692 shares, namely the share capital after deducting restricted shares remaining in lock-up.

Note 2: The figures set out above have been re-stated to reflect the increase of the Company's total share capital from 1,343,330,310 shares to 1,746,329,402 shares as a result of the implementation of the 2008 profit distribution plan.

Note 3: The above financial indicators represent figures excluding minority interests.

(V) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2009 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSS.

ONLY

Changes in Share Capital and Information of Shareholders

(1) CHANGES IN SHARE CAPITAL DURING THE YEAR

Unit: shares

	Prior to the change		Increase/decrease as a result of the change (+,-)					After the change	
	Number of shares	Percentage (%)	New issue	Bonus issue	Transfer from capital reserve Note 1	Others Note 2, Note 3	Sub-total	Number of share	Percentage (%)
I. Shares subject to lock-up	**1,693,914**	**0.13**	**—**	**—**	**486,271**	**70,279,273**	**70,765,544**	**72,459,458**	**3.96**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	—	—	—	—	—	66,899,197	66,899,197	66,899,197	3.65
Comprising:									
Domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	66,899,197	66,899,197	66,899,197	3.65
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising:									
Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	1,693,914	0.13	—	—	486,271	3,380,076	3,866,347	5,560,261	0.31
II. Shares not subject to lock-up	**1,341,636,396**	**99.87**	**—**	**—**	**402,512,821**	**14,727,540**	**417,240,361**	**1,758,876,757**	**96.04**
1. RMB ordinary shares	1,117,424,940	83.18	—	—	335,249,385	14,727,540	349,976,925	1,467,401,865	80.12
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	224,211,456	16.69	—	—	67,263,436	—	67,263,436	291,474,892	15.92
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**1,343,330,310**	**100**	**—**	**—**	**402,999,092**	**85,006,813**	**488,005,905**	**1,831,336,215**	**100**

Note 1: On 5 June 2009, the Company increased its share capital by way of capitalisation of the capital reserve (creation of 3 shares for every 10 shares based on a total share capital of 1,343,330,310 shares as at 31 December 2008). For details of changes in the Company's share capital following the capitalisation, please refer to the announcement of the Company "Profit Distribution and Capitalisation of Capital Reserve for 2008" dated 27 May 2009.

Note 2: Implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) commenced upon consideration and approval at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the CSRC. Registration of 85,050,238 Subject Share quotas granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch has been completed. The first unlocking of Subject Shares under the Phase I Share Incentive Scheme was completed on 22 July 2009. After deduction of 43,425 Subject Share quotas which had not been unlocked and which had lapsed, the total share capital of the Company had increased by 85,006,813 shares. For details, please refer to the "Announcement on the Completion of Unlocking of Subject Shares under the First Unlocking of the Phase I Share Incentive Scheme" published by the Company on 22 July 2009.

Note 3: The number of senior management shares unlocked during the year was 167,832 A shares. (1) In accordance with relevant domestic regulations, 163,048 A shares held by former senior management personnel of the Company who had departed were unlocked in accordance with relevant laws and regulations after a period of 6 months had expired since their resignations; (2) In 2008, Executive Vice President Mr. Tian Wenguo disposed of the shares that had been unlocked during the same year. In accordance with relevant provisions, 25% of his shareholdings (4,784 A shares) were unlocked at the beginning of 2009.

(2) CHANGES IN SHARES SUBJECT TO LOCK-UP

1. Table of changes in shares subject to lock-up

Unit: shares

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Hou Weigui	380,600	–	114,179	494,779	Restricted senior management shares	Note 1
Zhao Xianming	11,250	–	330,975	342,225	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Xu Huijun	11,250	–	330,975	342,225	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Chen Jie	106,725	–	214,017	320,742	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Ni Qin	97,782	–	211,335	309,117	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Zeng Xuezhong	22,500	–	279,750	302,250	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Fan Qingfeng	15,000	–	277,500	292,500	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Wu Zengqi	15,000	–	277,500	292,500	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Pang Shengqing	11,475	–	276,443	287,918	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Yin Yimin	202,832	–	60,848	263,680	Restricted senior management shares	Note 1
Others	819,500	167,832	68,559,854	69,211,522	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Total	**1,693,914**	**167,832**	**70,933,376**	**72,459,458**	–	–

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

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

Changes in Share Capital and Information of Shareholders

(3) ISSUE AND LISTING OF SECURITIES

1. Registration of the 85,050,238 A shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed. The first unlocking of Subject Shares under the Phase I Share Incentive Scheme was completed on 22 July 2009. After deduction of 43,425 Subject Share quotas which had not been unlocked and which had lapsed, the total share capital of the Company had increased by 85,006,813 shares. For details, please refer to VI Progress of the Phase I Share Incentive Scheme of the Company during the Reporting Period" in "Material Matters" in this report.

2. The Company completed its H share placing under the general mandate on 21 January 2010. A total of 58,294,800 H shares were issued and listed at a placing price of HK$45.0 per share, raising net proceeds of approximately HK$2,596 million. For details, please refer to the "Announcement on the Completion of the Placing of New H Shares" published by the Company in China Securities Journal, Securities Times and Shanghai Securities News on 22 January 2010.

3. As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants had been exercised at an exercise ratio of 1:0.922 and an adjusted exercise price of RMB42.394 per share on an ex-rights and ex-dividend basis to subscribe for 21,523,441 A shares, raising proceeds of approximately RMB912 million. For details, please refer to the Announcement of the results of the exercise of the "ZXC1" Warrants and changes in shareholdings" published by the Company in China Securities Journal, Securities Times and Shanghai Securities News on 24 February 2010.

4. The Company had no employees' shares.

(4) SHAREHOLDERS AND EFFECTIVE CONTROLLERS OF THE COMPANY

1. Top ten shareholders of the Company and top ten holders of shares not subject to lock-up as at 31 December 2009

Total number of shareholders

Total number of shareholders: 32,761 shareholders (of which 32,435 were holders of A shares and 326 were holders of H shares)

Shareholdings of top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen
1. Zhongxingxin	State-owned shareholder	33.87%	620,214,413	0	Nil
2. HKSCC Nominees Limited	Foreign shareholder	15.89%	290,954,719	0	Unknown
3. Guangfa Jufeng Stock Fund	Others	1.80%	33,000,000	0	Unknown
4. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L— FH002 Shen	Others	1.73%	31,599,426	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	Others	1.14%	20,805,894	0	Unknown
6. Xingye Trend Investment Hybrid Fund	Others	1.12%	20,526,341	0	Unknown
7. BoCom-Schroders Blue-chip Stock Fund	Others	0.77%	14,044,500	0	Unknown
8. Changsheng Tongqing Tradable Separated Stock Fund	Others	0.70%	12,907,585	0	Unknown
9. Industrial Global View Securities Investment Fund	Others	0.60%	10,992,514	0	Unknown
10. Rongtong SZSE 100 Index Stock Fund	Others	0.57%	10,509,088	0	Unknown

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

Name of shareholders	Number of shares held not subject to lock-up	Class of shares
1. Zhongxingxin	620,214,413	A SHARES
2. HKSCC Nominees Limited	290,954,719	H SHARES
3. Guangfa Jufeng Stock Fund	33,000,000	A SHARES
4. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L— FH002 Shen	31,599,426	A SHARES
5. Hunan Nantian (Group) Co., Ltd	20,805,894	A SHARES
6. Xingye Trend Investment Hybrid Fund	20,526,341	A SHARES
7. BoCom-Schroders Blue-chip Stock Fund	14,044,500	A SHARES
8. Changsheng Tongqing Separate Trading Stock Fund	12,907,585	A SHARES
9. Industrial Global View Securities Investment Fund	10,992,514	A SHARES
10. Rongtong SZSE 100 Index Stock Fund	10,509,088	A SHARES

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

1. Among the Company's top ten shareholders, Xingye Trend Investment Hybrid Fund (6th) and Industrial Global View Securities Investment Fund (9th) were managed by the same fund manager, Industrial Global Fund Management Limited.
2. There were no connected party relationships or concerted party relationships between Zhongxingxin and other shareholders listed above.
3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the rest of the top ten shareholders and the rest of the top ten holders of shares that are not subject to lock-up.

	Name of shareholder	Agreed period of shareholding
Agreed period of shareholding for strategic investors or legal persons participating in the placing of new shares	None	None

Changes in Share Capital and Information of Shareholders

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

Name of shareholder	Circulating shares not subject to lock-up held at the beginning of the year (shares)	Increase/ decrease during the year (shares)	Reasons for change	Circulating shares not subject to lock-up held at the end of the year (shares)
Zhongxingxin	477,088,010	143,126,403	Note	620,214,413

Note: The change in the number of circulating shares not subject to lock-up held by Zhongxingxin during the reporting period is attributable to the implementation of the proposals of profit distribution and capitalisation from capital reserves of the Company for 2008. For details, please refer to the announcements headed "Announcement on Profit Distribution and Capitalisation from Capital Reserves for 2008" published in Shanghai Securities News, China Securities Journal and Securities Times on 27 May 2009.

3. Controlling shareholders of the Company

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

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

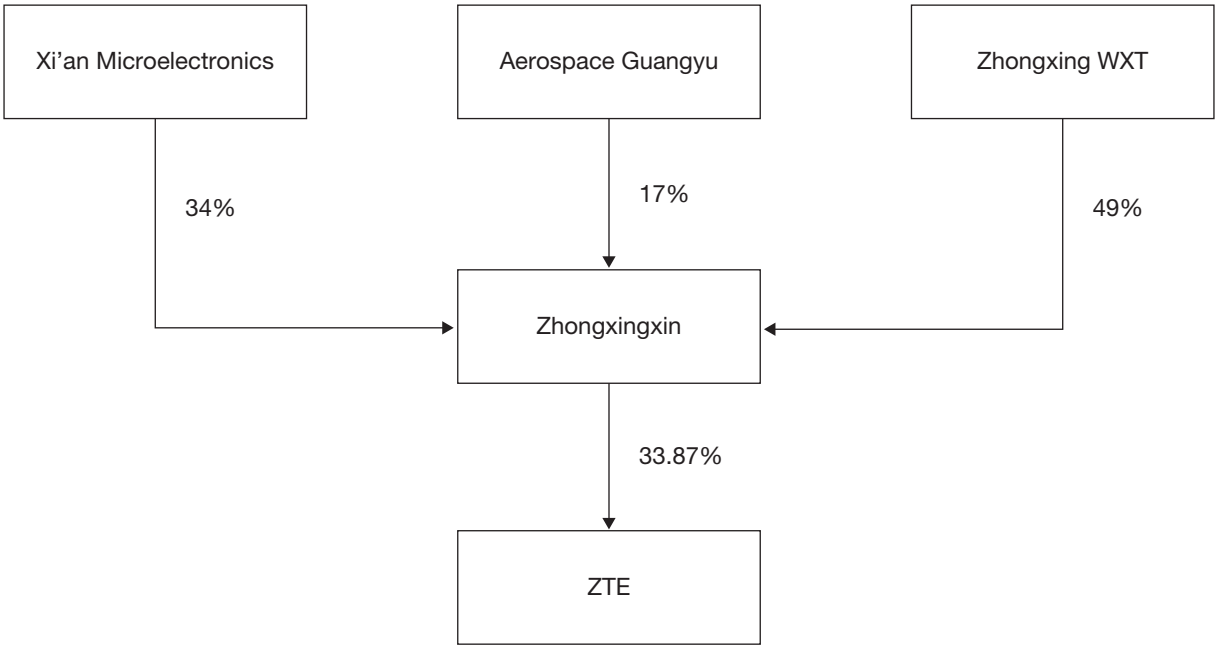
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Shenzhen Aerospace Guangyu Industrial (Group) Company Limited ("Aerospace Guangyu") and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44 .45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

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

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

Zhongxing WXT is a private high-technology enterprise incorporated on 23 October 1992. Its legal representative is Mr. Hou Weigui and its registered capital amounts to RMB10 million. 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 shareholding and controlling relationships between the Company and its shareholders as at 31 December 2009:



Changes in Share Capital and Information of Shareholders

5. Interests of substantial shareholders and other persons in shares or debentures

As at 31 December 2009, the following shareholders were interested in 5% or more in the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the Securities and Futures Ordinance:

Name	Number of shareholding	Approximate shareholding as a percentage (%) of: Total share capital	The relevant class of shares
Zhongxingxin	620,214,413 A shares(L)	33.87	40.28
Zhongxing WXT	620,214,413 A shares(L)	33.87	40.28
Xi'an Microelectronics	620,214,413 A shares(L)	33.87	40.28
China Aerospace Electronics Technology Research Institute (formerly known as China Aerospace Times Electronics Corporation)	620,214,413 A shares(L)	33.87	40.28
CASC	620,214,413 A shares(L)	33.87	40.28
Goldman Sachs (Asia) LLC	11,622,000 H shares(L)	1.21[Note]	7.82[Note]
Goldman Sachs (Cayman) Holding Company	11,622,000 H shares(L)	1.21[Note]	7.82[Note]
FIL Limited	20,671,550 H shares(L)	1.13	7.09
Aranda Investments (Mauritius) Pte Ltd	11,141,800 H shares(L)	1.16[Note]	6.96
FMR LLC	20,236,718 H shares(L)	1.11	6.94
Massachusetts Financial Services Company ("MFS")	8,428,100 H shares(L)	0.88[Note]	5.26[Note]
Sun Life Financial, Inc.	8,428,100 H shares(L)	0.88[Note]	5.26[Note]

(L) long position; (S) short position; (P) lending pool

Note: Shareholding as a percentage of total share capital and relevant class of shares was calculated based on the Company's total share capital of 959,521,650 shares and 160,151,040 H shares as at 10 July 2008 prior to the capitalization from capital reserve.

Save as disclosed above, as at 31 December 2009, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the Securities and Futures Ordinance.

6. Public float

On the basis of publicly available information known to the Board of Directors, the Company's public float is in compliance with the minimum public float requirement of Hong Kong Stock Exchange Listing Rules as at 7 April 2010.

Directors, Supervisors, Senior Management and Employees

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

1. Biography of Directors

Mr. Hou Weigui, 68, Chairman and a Non-executive Director of the Company, is a senior engineer and one of the founders of Shenzhen Zhongxing Semiconductor Co., Ltd. and Shenzhen Zhongxingxin Telecommunications Equipment Co., Ltd. He had been a Director and the President of the Company responsible for the overall daily operational management since the listing of the Company on Shenzhen Stock Exchange in 1997 until February 2004. He has been the Chairman of the Company since February 2004 and is concurrently the Chairman of Shenzhen Zhongxing WXT Equipment Company, Ltd. Mr. Hou has extensive experience in the telecommunications business with over 40 years of management experience.

Mr. Wang Zongyin, 65, was a Vice Chairman and a Non-executive Director of the Company from February 2004 to March 2010. Mr. Wang graduated from the Faculty of Mechanical Engineering, Beijing Institute of Technology in 1968, specialising in rocket design. Mr. Wang served as the secretary to the Party Committee and deputy head of the China Academy of Launch Vehicle Technology from 2001 to February 2003, and as the general manager of China Aerospace Times Electronics Corporation (now known as China Aerospace Electronic Technology Institute) from February 2003 to December 2007. He is currently vice chairman of Long March Launch Vehicle Technology Co., Ltd. Mr. Wang is the Member of the 10th National Committee of the Chinese People's Political Consultative Conference and representative of the 12th People's Congress, Beijing Municipality. Mr. Wang has substantial experience in management and business operations.

Mr. Xie Weiliang, 54, is a Vice Chairman and a Non-executive Director of the Company. Mr. Xie graduated from the Faculty of Politics, National University of Defense Technology in 1982 and holds the title of professor. He served as the head of Nanjing Aerospace Management Cadres Institute from 2001 to 2003, and as the general manager of Aerospace Technology Shenzhen (Group) Co. Ltd and Shenzhen Aerospace Guangyu Industrial (Group) Co. Ltd since 2003. He has been Vice Chairman of the Company since February 2004 and is concurrently chairman of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Xie has substantial experience in management and business operations.

Mr. Zhang Junchao, 56, is a Non-executive Director of the Company. Mr. Zhang graduated from the Faculty of Electronic and Wireless Engineering, Xi'an Jiaotong University in 1977 and holds the title of researcher. He served as the secretary general of the Party Committee and deputy head of the CASC Foundational Electronic Technology Institute from 2000 to March 2003, from March 2003 to February 2009 as the deputy secretary general of the Party Committee of China Aerospace Times Electronics Corporation (now known as China Aerospace Electronic Technology Institute), from May 2003 to the present head of its Shanxi Management Division and head of Xi'an Microelectronics Technology Institute. Since March 2006, he has acted as the head of the centre of design and manufacture of computers and integrated circuits of China Aerospace Times Electronics Corporation (now known as China Aerospace Electronic Technology Institute) and since March 2009, the deputy secretary general of the Party Committee of China Aerospace Electronic Technology Institute under CASC. He has been a Non-executive Director of the Company since February 2004. He is concurrently vice chairman of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Zhang has substantial experience in management and business operations.

Mr. Li Juping, 54, was a Non-executive Director of the Company from April 1999 to March 2010. Mr. Li graduated from the Department of Technical Physics, Northwest Institute of Telecommunications Engineering (now known as Xidian University) in 1982, and holds the title of researcher. He served as the head of Xi'an Microelectronics and the general manager of Lishan Microelectronics Corporation from 2000 to 2003, and as the chief engineer of China Aerospace Times Electronics Corporation (now known as China Aerospace Electronic Technology Institute) from 2003 to the present. Mr. Li has substantial experience in management and business operations.

Directors, Supervisors, Senior Management and Employees

Mr. Dong Lianbo, 53, is a Non-executive Director of the Company. Mr. Dong graduated from Northeastern University majoring in Business Administration in 2001, and holds the titles of researcher-grade senior engineer. He served as the director and deputy general manager of Shenyang Aerospace Xinguang Group from 2001 to 2002, deputy team head of the Shenzhen Business Integration Working Group of CASIC from 2002 to 2003, deputy general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2003, and secretary general of the Party Committee of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2008. He has been a Non-executive Director of the Company since February 2004. He is concurrently director of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. Mr. Dong has substantial experience in management and business operations.

Mr. Shi Lirong, 46, an Executive Director and President of the Company, has been the Executive Vice President of the Company since 1999. Mr. Shi is a senior engineer. He graduated from Tsinghua University in 1984 majoring in wireless and information technology and 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 and head of the production department in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was the deputy general manager of Shenzhen Zhongxingxin Telecommunications Equipment Co., Ltd. He was in charge of the Company's marketing operations from 1997 to 2007 and, since 2007, the Company's global sales. He has been an Executive Director of the Company since February 2001. He is concurrently director of Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited, controlling shareholder of the Company. He has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Yin Yimin, 46, an Executive Director of the Company. Mr. Yin is a senior engineer. He graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a Master of Science degree in engineering, majoring in telecommunications and electronic systems. Mr. Yin served as a manager of the Research and Development Department of Shenzhen Zhongxing Semiconductor Co., Ltd. in 1991, and as deputy general manager of Shenzhen Zhongxingxin Telecommunications Equipment Co., Ltd between 1993 and 1997. During the periods from 1997 to March 2010, he served as the Company's vice president, senior vice president and President, and was in charge of different divisions such as research and development, marketing, sales and handsets operations. He has been an Executive Director of the Company since November 1997. He has many years of experience in the operation of telecommunications business and over 19 years of management experience.

Mr. He Shiyou, 43, an Executive Director of the Company, has been the Executive Vice President of the Company since 1999. He currently oversees the business of handset products of the Company. Mr. He is a senior engineer. He graduated from Beijing University of Posts and Telecommunications in 1990 with a Master of Science degree in engineering, specializing in electromagnetic field and microwave technology. Mr. He joined Shenzhen Zhongxingxin Telecommunications Equipment Co., Ltd in 1993 and previously was the chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's vice president from 1998 to 1999, responsible for divisions such as research and development and marketing. Since 1999, he has served as a Senior Vice President of the Company, and is responsible for the Second Sales Division and the handsets business of the Company. He has been an Executive Director of the Company since February 2001. He has many years of experience in the telecommunications industry as well as over 17 years of management experience.

Mr. Mi Zhengkun, 64, was an Independent Non-executive Director of the Company from February 2004 to March 2010. Mr. Mi is currently a professor of the Telecommunications Engineering Department of Nanjing University of Posts and Telecommunications (formerly "Nanjing Institute of Posts and Telecommunications"). Mr. Mi graduated from Nanjing University of Posts and Telecommunications in 1981, specialising in telecommunications, and has obtained a master's degree. He is a member of the expert panel of ITU-T. He is involved in various scientific research and development projects at the State and provincial levels. Since 1982, Mr. Mi has been engaged in teaching and scientific research at Nanjing University of Posts and Telecommunications.

Mr. Li Jin, 42, is an Independent Non-executive Director of the Company. Mr. Li graduated from Peking University in China in 1989, majoring in bio-chemistry and received his juris doctor degree from the Law School of Columbia University in the United States of America in 1994. From 1997 to 2002, he was a lawyer of Skadden, Arps, Slate, Meagher & Flom LLP, and from 2002 to November 2003 a partner at Linklaters, an international law firm. He has been an Independent Non-executive Director of the Company since June 2004. Mr. Li is concurrently an independent director of Dragon Pharmaceutical Inc., a Canadian company listed on NASDAQ.

Mr. Zhu Wuxiang, 44, was an Independent Non-executive Director of the Company from July 2003 to July 2009. 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, specialising in quantitative economics and has obtained a doctorate degree. He has been studying and working at Tsinghua University since 1982. Mr. Zhu also holds concurrent independent non-executive directorships with Shenzhen Telling Telecommunications Holding Co., Ltd., Shandong Shengli Co., Ltd., Beijing Teamsun Technology Co., Ltd. and Goertek Inc.

Mr. Chen Shaohua, 48, was Independent Non-Executive Director of the Company from July 2003 to July 2009. 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, specialising in accounting, and has obtained a doctorate degree. Since 1983, he has been engaged in teaching and academic research at the Department of Accounting of Xiamen University.

Mr. Qiao Wenjun, 39, was Independent Non-executive Director of the Company from July 2003 to July 2009. Currently, he is a partner of Zhong Lun Law Firm and the head of its Shanghai office. Mr. Qiao graduated from Fudan University in 1999, specialising in company law, and has obtained a master's degree in law. He had worked at Shanghai People's Municipal Government Overseas Chinese Affairs Department, and from 1994 to 2001, he was a partner of Pu Dong Law Firm. From 2001 to the present, he has been a partner of Zhong Lun Law Firm, the head of its Shanghai office and a lawyer.

Ms. Qu Xiaohui, 55, is an Independent Non-executive Director of the Company. She is the first female PhD in accounting and female tutor for doctorate candidates in accounting in China and the promoter of the project hypothesis procedure for the creation of a professional master's degree in accounting (MPAcc) in China. She is currently the head of the center for accounting studies at Xiamen University, a key research base for arts disciplines designated by the Ministry of Education, and an accounting professor. Ms. Qu graduated from Xiamen University in July 1989 with a doctorate degree in Economics (Accounting). Since August 1989, she has been engaged in teaching and academic research at the Department of Accounting of Xiamen University. She has been an Independent Non-executive Director of the Company since July 2009. Ms. Qu is concurrently an independent director of Yunnan Baiyao Group Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Wei Wei, 44, is an Independent Non-executive Director of the Company. He has been the associate dean of HSBC Business School of Peking University and the head of the Research Centre of Doers' Group Business Model of HSBC Business School of Peking University since October 2007. Mr. Wei graduated from Huazhong University of Science and Technology in 2004 with a doctorate degree in management science and engineering. He worked in Xinjiang Technology College and Xinjiang University. He was a post-doctorate fellow at Chinese Economic Research Centre at the Peking University from July 2004 to June 2006 and an assistant to the Dean of Shenzhen School of Business of Peking University from July 2006 to September 2007. He has been an Independent Non-executive Director of the Company since July 2009. Mr. Wei served as an independent director of Xinjiang Tiankang Animal Science Bio-technology Co., Ltd. (a company listed on Shenzhen Stock Exchange) from October 2001 to October 2008, an independent director of Xinjiang International Industry Co., Ltd. (a company listed on Shenzhen Stock Exchange) from October 2003 to June 2008 and is currently an independent director of Shenzhen Changyuan Group Company Limited (a company listed on Shanghai Stock Exchange) and of Dalian Zhangzidao Fishery Group Company Limited (a company listed on Shenzhen Stock Exchange).

Directors, Supervisors, Senior Management and Employees

Mr. Chen Naiwei, 52, is an Independent Non-executive Director of the Company. He has been a partner of Shanghai Allbright Law Offices since 2001, a senior lawyer and a law professor. Mr. Chen graduated from the Graduate School of Macau University of Science and Technology in 2007 with a doctorate degree in Law. He served as the head of the Law Faculty and head of the Intellectual Property Research Centre of Shanghai Jiaotong University. He has been an Independent Non-executive Director of the Company since July 2009.

2. Secretary to the Board of Directors/Company Secretary

Mr. Feng Jianxiong, 36, the Secretary to the Board of Directors and Company Secretary of the Company, is responsible for the Securities and Investor Relations department of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor degree in economics, majoring in international finance. He joined Zhongxingxin in July 1996, and has been the Secretary to the Board of Directors since 2000, with spells as heads of the Investment Department, the Securities and Finance Department and the Securities and Investor Relations Department of the Company during the period. Mr. Feng has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

3. Biography of Supervisors

Mr. Zhang Taifeng, 68, the Chairman of the Supervisory Committee of the Company. Mr. Zhang graduated from Jilin University with a bachelor's degree in semiconductor technology in 1966. He has previously held the positions of chief engineer and head of State-owned No. 691 Factory and head of X'ian Microelectronics. He joined Zhongxingxin in April 1993. He had been the Chairman of the Company from November 1997 to February 2004 and from February 2004 to the present the Chairman of the supervisory Committee of the Company.

Mr. Wang Wangxi, 43, was a supervisor of the Company from February 2004 to March 2010, and is Assistant to Executive Vice President and the Head of the Administration Division. He graduated from the Electronic Engineering faculty of Southeast University in 1991 with a master's degree in electrophysics and devices. From June 1991 to October 1994, Mr. Wang worked as a teacher in the Electronic Engineering faculty of Southeastern University. Mr. Wang joined Zhongxingxin in October 1994. He was deputy general manager of International Business Division and the chief executive officer of Zhongxing Telecom Pakistan (Pvt) Ltd. and the deputy general manager of the Company's First Sales Division.

Ms. He Xuemei, 39, is a supervisor of the Company and chairperson of the labor union of the Company. Ms. He obtained a bachelor's degree in mechanical engineering in 1991 and a second bachelor's degree in business administration in 1995, both from Chongqing University. Ms. He had worked at the Student Affairs Department of Chongqing University, She has worked with ZTE Kangxun and the Network Operations Division of the Company after joining the Company in January 1998.

Mr. Qu Deqian, 48, was a supervisor of the Company from May 2005 to March 2010. Mr. Qu graduated from the Shaanxi Economics Institute with a Undergraduate Diploma in Statistics in June 1992 and further obtained the qualification of accountant in the PRC in October 1994. From 1997 to 2003, Mr. Qu was the Chief of the Accounting and Auditing Centre of the Company and Deputy Chief of the Financial Centre. He has been the deputy general manager of Zhongxing WXT since 2003.

Ms. Wang Yan, 45, is a supervisor of the Company. Ms. Wang graduated from the Department of Management and Industrial Accounting of Northeast Industrial Institute in July 1988 with a Bachelor's degree in engineering. Ms. Wang was qualified as an accountant in the PRC in December 1992 and further obtained the qualification of senior accountant in the PRC in September 1999. She joined Zhongxingxin in 1999 and had been manager of the financial department. She is currently the deputy general manager and chief accountant of Zhongxingxin since June 2005.

4. Biography of the Management

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

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

Mr. Wei Zaisheng, 47, has been an Executive Vice President of the Company since 1999 and is currently in charge of the financial affairs 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 1988 and served as the chief financial officer and an assistant to the general manager of Zhongxingxin from 1993 to 1997. During the period from 1997 to 1999, he was the Senior Vice President of the Company. Since 1999 he has been the Executive Vice President of the Company in charge of the financial affairs of the Company. He has been appointed a member of China Accounting Informationization Committee and a member of XBRL Regional Steering Committee (China) by the Ministry of Finance since November 2008. He is also a director of Shenzhen Zhongxingxin Telecommunications Equipment Co., Ltd. Mr. Wei has many years of experience in the telecommunications industry, including over 21 years in managerial positions.

Mr. Xie Daxiong, 46, has been an Executive Vice President of the Company since 2004 and is currently in charge of product research and development of the Company. Mr. Xie is a senior engineer and holds the title of professor. He graduated from the Nanjing University of Science and Technology in 1986, specialising in applied mechanics, and has obtained a Master of Science degree in engineering. Mr. Xie joined Zhongxingxin in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie was the CDMA products manager, and subsequently the general manager of the Company's CDMA Division. Since 2004, he has been Executive Vice President of the Company in charge of the Technology Centre of the Company. As a national-level candidate of the talent programme, Mr. Xie is entitled to special government grants. He was also the recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry, including over 13 years in managerial positions.

Mr. Tian Wenguo, 41, has been an Executive Vice President of the Company since 2005 and is currently in charge of the logistics operations of the Company. Mr. Tian graduated from Harbin Institute of Technology in 1991 with a bachelor of science degree in engineering, specialising in electromagnetic surveys and devices. Mr. Tian joined Zhongxingxin in 1996, and from 1997 to 2002, he was the manager of the Company's Chongqing Sales Office and the general manager of the Southwest Region. From 2002 to 2005, he was the Senior Vice President and general manager of Second Sales Division of the Company. Since 2005, he has been Executive Vice President of the Company in charge of marketing and operations of the Company. Mr. Tian has many years of experience in the telecommunications industry, including over 12 years in managerial positions.

Mr. Qiu Weizhao, 46, was a Senior Vice President of the Company from 1998 to 2006 and is currently in charge of the human resources and administration of the Company. He has been an Executive Vice President of the Company since 2007. Mr. Qiu graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master of science degree in engineering. Mr. Qiu was responsible for the logistics operations of the Company from 1998 to 2007, and since 2008 he has been responsible for the human resources and administration of the Company. Mr. Qiu has many years of experience in the telecommunications industry, including over 21 years in managerial positions.

Mr. Fan Qingfeng, 41, has been an Executive Vice President of the Company since March 2008 and is currently in charge of the sales operation. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree, specialising in industrial electrical automation. He graduated from Tsinghua University in 2006 with a master's degree in business administration. He joined Zhongxingxin in 1996. From 1997 to 2005, Mr. Fan acted as the project manager of the Company's Zhengzhou office, the manager of Chongqing office, regional vice president of Eastern China region and manager of Ji'nan Office, deputy general manager of the Company's Second Sales Division, the Senior Vice President of the Company and head of Beijing branch. From March 2008 to March 2010 he was Executive Vice President of the Company in charge of logistics operations. He has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

Directors, Supervisors, Senior Management and Employees

Ms. Chen Jie, 51, has been a Senior Vice President of the Company since 2002 and is currently in charge of the wireline and business products under the marketing department. Ms. Chen graduated from the Nanjing University of Posts and Telecommunications (formerly "Nanjing Institute of Posts and Telecommunications") in 1989 specialising in telecommunications and from the New York University's Department of Computer Science in 1994 with a double master's degree. Ms. Chen holds the titles of senior researcher and senior engineer. From 1989 to 1992, Ms. Chen was a manager of the Development Division of Shenzhen Zhongxing Semiconductor Co., Ltd. From 1998 to the beginning of 2002, she served as the general manager of the Company's U.S. subsidiary. Since 2002, she has been Senior Vice President of the Company in charge of the Networking Operations Division. From 2007 onwards, she has been general manager of the wireline and business products under the marketing department. Ms. Chen has many years of experience in the telecommunications industry, including over 14 years in managerial positions.

Mr. Zhao Xianming, 43, has been a Senior Vice President of the Company since 2004 and is currently in charge of wireless business under the research and development department. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate of science degree in engineering. From 1991 to 1998, Mr. Zhao served as a deputy director of the Communication Engineering Teaching and Research Office of Harbin Institute of Technology. He joined the Company in 1998 to engage in the research, development and management of the CDMA products. He had been the head of the Research & Development Group, project manager and general product manager from 1998 to 2003. Since 2004, he has been the Senior Vice President of the Company in charge of the CDMA Division of the Company. Since 2007 he has been Senior Vice President in charge of wireless business under the research and development department. Mr. Zhao has many years of experience in the telecommunications industry, including over 18 years in managerial positions.

Mr. Pang Shengqing, 41, has been a Senior Vice President of the Company since 2005 and is currently in charge of the First Sales Division of the Company. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate of science degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin in 1995. From 1998 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology research and hardware systems. Mr. Pang was deputy general manager of the CDMA Division and general manager of the First Sales Division from 2001 to 2004. Since 2005 he has been Senior Vice President of the Company responsible for the First Sales Division of the Company. He has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

Mr. Zeng Xuezhong, 36, has been a Senior Vice President of the Company since 2006 and is currently in charge of the Third Sales Division. Mr. Zeng graduated from Tsinghua University with a bachelor of science degree in engineering in modern applied science in 1996 and with a EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to July 2006, Mr. Zeng was the Company's senior project manager, assistant to the regional general manager, manager of Guiyang branch and manager of Kunming branch, deputy general manager and general manager of the Second Sales Division and Vice President of the Company. Since August 2006, he has been Senior Vice President of the Company in charge of the Third Sales Division. Mr. Zeng has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

Mr. Xu Huijun, 36, has been a Senior Vice President of the Company since 2004 and is currently in charge of engineering services of the sales operations. Mr. Xu graduated from Tsinghua University in 1998 with a master of science degree in engineering, specialising in electronic engineering. He joined the Company in 1998 and had served as a project manager of the General Products Division, the head of Beijing Research Centre and the general manager of the general products division from 1998 to 2003. Since 2004 he has been Senior Vice President of the Company in charge of the General Products Division. Since 2007 he has continued to be Senior Vice President of the Company in charge of engineering services of the sales operations. Mr. Xu has many years of experience in the telecommunications industry, including over 11 years in managerial positions.

Mr. Ye Weimin, 43, has been a Senior Vice President of the Company since 2001 and is currently in charge of ZTE Kangxun of the Company's logistics operations. Mr. Ye graduated from Shanghai Jiaotong University in 1988 with a bachelor of science degree in engineering, majoring in computer science and engineering. He graduated from Rennes-Shanghai Jiaotong University in 2007 with a doctor of business administration degree conferred by ESC Rennes School of Business, specialising in business administration. He joined Zhongxingxin in 1994 and was previously involved in the engineering research and development of digital programme-control switches and mobile communication systems. From 1997 to 2001, he served as the chief officer of the Company's Central Laboratory, head of the quality control department of Mobile Operations Division and the Customer Services Department and deputy general manager of the Third Sales Division. From 2001 to 2007, he has been Senior Vice President of the Company in charge of the Mobile Operations Division and the Fifth Sales Division. Since, 2008, he has been in charge of ZTE Kangxun of the Company's logistics operations. Mr. Ye has many years of experience in the telecommunications industry, including over 16 years in middle to senior management.

Mr. Ni Qin, 50, has been a Senior Vice President of the Company since 1998 and is currently in charge of process optimisation and IT application. Mr. Ni graduated from Shanghai School of Posts and Telecommunications in 1981, specialising in telecommunications. From 1981 to 1994, Mr. Ni carried out technological research and development work in Shanghai Postal and Telecommunication Research Institute No. 1. He served as head of Shanghai Research Institute of Zhongxingxin from 1994 to 1997. Since 1998 he has been Senior Vice President of the Company in charge of the Access Product Division, the Handset Division and IT construction. Mr. Ni has many years of experience in the telecommunications industry, including over 15 years in managerial positions.

Mr. Wu Zengqi, 45, has been a Senior Vice President of the Company since 2007 and is currently in charge of the Fifth Sales Division. Mr. Wu graduated from Fudan University in 1990 with a Master's degree in economics, specialising in global economics. He joined the Company in 1999 and was the chief representative of the Libyan Office of the First Sales Division, general manager of North Africa region of the Fifth Sales Division and general manager of the Second Sales Division from 1999 to 2008. Since 2009, he has been general manager of the Fifth Sales Division of the Company. Mr. Wu has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

Mr. Zhu Jinyun, 38, has been a Senior Vice President of the Company since 2009 and is currently in charge of the Fourth Sales Division. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering specialising in communications and electronic systems. He joined the Company in the same year to engage in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA hardware development department, general project manager for various products under the CDMA department and general project manager for WCDMA products. Since 2009, he has been general manager of the Fourth Sales Division of the Company. Mr. Zhu has many years of experience in the telecommunications industry, including over 10 years in managerial positions.

Mr. Zhang Renjun, 41, has been a Senior Vice President of the Company since 2009 and is currently in charge of the Second Sales Division. Mr. Zhang graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2008, he had been deputy general manager of the First Sales Division, deputy general manager of the Fourth Sales Division, head of the MTO department and director of the PMO department, both under sales operations. Mr. Zhang has many years of experience in the telecommunications industry, including over 10 years in managerial positions. Since 2009, he has been general manager of the Second Sales Division of the Company.

Mr. Feng Jianxiong is the Secretary to the Board of Directors of the Company. Please refer to "Secretary to the Board of Directors/Company Secretary" in this section for his biographical details.

Directors, Supervisors, Senior Management and Employees

(II) CHANGES IN THE SHAREHOLDINGS AND ANNUAL REMUNERATION OF AND SHARE INCENTIVES GRANTED TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

										Shares granted under the Share Incentive Scheme during the reporting period (restricted A shares)				
Name	Title	Gender	Age	Term of office commencing on Note 7	Term of office ending on Note 7	Number of shares held at the beginning of the year	Number of shares held at the end of the year (including shares under the Share Incentive Scheme)	Reason for change	Total pre-tax remuneration received from the Company during the reporting period (RMB10,000)	Number of restricted shares granted (share)	Number of restricted shares granted during the period (shares) Note 5	Grant price of restricted shares (cum-right basis) (RMB)	Number of restricted shares held at the end of the reporting period	Whether remuneration is received from shareholder entities or other connected entities
Hou Weigui	Chairman	Male	68	3/2007	3/2010	507,466	659,706	Note 1	147.0	0	0	30.05	0	No
Wang Zongyin	Vice Chairman	Male	65	3/2007	3/2010	0	18,200	Note 2	10	18,200	0	30.05	18,200	Yes
Xie Weiliang	Vice Chairman	Male	54	3/2007	3/2010	0	18,200	Note 2	10	18,200	0	30.05	18,200	Yes
Zhang Junchao	Director	Male	56	3/2007	3/2010	0	18,200	Note 2	10	18,200	0	30.05	18,200	Yes
Li Juping	Director	Male	54	3/2007	3/2010	0	18,200	Note 2	10	18,200	0	30.05	18,200	Yes
Dong Lianbo	Director	Male	53	3/2007	3/2010	0	18,200	Note 2	10	18,200	0	30.05	18,200	Yes
Shi Lirong	Director and President	Male	46	3/2007	3/2010	154,064	200,283	Note 1	166.0	0	0	30.05	0	No
Yin Yimin	Executive Director	Male	46	3/2007	3/2010	270,442	351,574	Note 1	603.0	0	0	30.05	0	No
He Shiyou	Director and Executive Vice President	Male	43	3/2007	3/2010	147,410	191,633	Note 1	169.7	0	0	30.05	0	No
Zhu Wuxiang Note 4	Independent Director	Male	44	3/2007	7/2009	0	0	–	5.8	0	0	30.05	0	No
Chen Shaohua Note 4	Independent Director	Male	48	3/2007	7/2009	0	0	–	5.8	0	0	30.05	0	No
Qiao Wenjun Note 4	Independent Director	Male	39	3/2007	7/2009	0	0	–	5.8	0	0	30.05	0	No
Mi Zhengkun	Independent Director	Male	64	3/2007	3/2010	0	0	–	10	0	0	30.05	0	No
Li Jin	Independent Director	Male	42	3/2007	3/2010	0	0	–	10	0	0	30.05	0	No
Qu Xiaohui Note 5	Independent Director	Female	55	7/2009	3/2010	0	0	–	4.5	0	0	30.05	0	No
Wei Wei Note 5	Independent Director	Male	44	7/2009	3/2010	0	0	–	4.5	0	0	30.05	0	No
Chen Naiwei Note 5	Independent Director	Male	52	7/2009	3/2010	0	0	–	4.5	0	0	30.05	0	No
Zhang Taifeng	Chairman of Supervisory Committee	Male	68	3/2007	3/2010	170,352	221,458	Note 1	147.0	0	0	30.05	0	No
Wang Wangxi	Supervisor	Male	43	3/2007	3/2010	0	0	–	66.9	0	0	30.05	0	No
He Xuemei	Supervisor	Female	39	3/2007	3/2010	0	0	–	35.6	0	0	30.05	0	No
Qu Deqian	Supervisor	Male	48	3/2007	3/2010	14,028	18,236	Note 1	0	0	0	30.05	0	Yes
Wang Yan	Supervisor	Female	45	3/2007	3/2010	0	0	–	0	0	0	30.05	0	Yes
Wei Zaisheng	Executive Vice President and Chief Financial Officier	Male	47	3/2007	3/2010	165,564	215,233	Note 1	156.0	0	0	30.05	0	No
Xie Daxiong	Executive Vice President	Male	46	3/2007	3/2010	82,775	289,607	Notes 1 and 2	150.6	182,000	0	30.05	182,000	No
Tian Wenguo	Executive Vice President	Male	41	3/2007	3/2010	19,136	206,877	Notes 1 and 2	171.0	182,000	0	30.05	182,000	No
Qiu Weizhao	Executive Vice President	Male	46	3/2007	3/2010	0	182,000	Note 2	144.7	182,000	0	30.05	182,000	No
Fan Qingfeng	Executive Vice President	Male	41	3/2007	3/2010	20,000	292,500	Notes 1, 2 and 3	148.5	273,000	0	30.05	273,000	No
Chen Jie	Senior Vice President	Female	51	3/2007	3/2010	142,300	366,990	Notes 1 and 2	142.5	182,000	0	30.05	182,000	No
Zhao Xianming	Senior Vice President	Male	43	3/2007	3/2010	15,000	347,100	Notes 1 and 2	138.4	327,600	0	30.05	327,600	No
Pang Shengqing	Senior Vice President	Male	41	3/2007	3/2010	15,300	292,891	Notes 1 and 2	128.4	273,000	0	30.05	273,000	No
Zeng Xuezhong	Senior Vice President	Male	36	3/2007	3/2010	30,000	312,000	Notes 1 and 2	130.5	273,000	0	30.05	273,000	No
Xu Huijun	Senior Vice President	Male	36	3/2007	3/2010	15,000	347,100	Notes 1 and 2	126.6	327,600	0	30.05	327,600	No
Ye Weimin	Senior Vice President	Male	43	3/2007	3/2010	57,326	256,524	Notes 1 and 2	114.9	182,000	0	30.05	182,000	No
Ni Qin	Senior Vice President	Male	50	3/2007	3/2010	130,376	351,489	Notes 1 and 2	119.6	182,000	0	30.05	182,000	No
Wu Zengqi	Senior Vice President	Male	45	3/2007	3/2010	20,000	299,000	Notes 1 and 2	117.3	273,000	0	30.05	273,000	No
Zhu Jinyun	Senior Vice President	Male	39	3/2009	3/2010	0	253,708	Note 2	113.5	253,708	0	30.05	253,708	No
Zhang Renjun	Senior Vice President	Male	42	3/2009	3/2010	0	0	–	113.6	0	0	30.05	0	No
Feng Jianxiong	Secretary to the Board	Male	36	3/2007	3/2010	10,000	195,000	Notes 1 and 2	66.8	182,000	0	30.05	182,000	No
Total	–	–	–	–	–	1,986,539	5,941,909	–	3,519.0	3,365,908	0	–	3,365,908	–

Note 1: The profit distribution and capitalisation from capital reserves for 2008 (creation of 3 shares for every 10 shares and RMB3 for every 10 shares (including tax) in cash) were implemented on 5 June 2009. The shareholdings of Directors, supervisors and senior management have been adjusted accordingly.

Note 2: Registration of the A Shares granted to Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009.

Note 3: Shareholdings were reduced in accordance with the provisions of "Administrative Rules for Company Shareholdings by Directors, Supervisors and Senior Management of Listed Companies and Their Changes".

Note 4: The three Independent Directors aforesaid departed in July 2009 upon the conclusion of their term of office.

Note 5: The term of the three Independent Directors aforesaid was effective from July 2009.

Note 6: The first unlocking of shares granted to the Directors and senior management of the Company under the Share Incentive Scheme was completed on 26 February 2010. For details, please refer to the Announcement of the Company on the First Unlocking of Shares Granted to the Directors and Senior Management of the Company under the Share Incentive Scheme dated 27 February 2010.

Note 7: The term of offices set out above represents the term of office for the Fourth Session of the Board of Directors and the Fourth Session of the Supervisory Committee. For information on the re-appointments and new appointments of the Fifth Session of the Board of Directors and senior management and the Fifth Session of the Supervisory Committee, please refer to the section headed "Change in the Directors, supervisors and senior management after the end of the year" in the Annual Report.

(III) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT HOLDING POSITIONS IN SHAREHOLDERS OF THE COMPANY

Name	Name of shareholder	Position in the shareholder	Term of office
Xie Weiliang	Zhongxingxin	Chairman	2007.4–2010.5
	CASIC Shenzhen (Group) Company Limited	Director and general manager	Since 2003
Zhang Junchao	Zhongxingxin	Vice chairman	2007.4–2010.5
	Lishan Microelectronics Corporation	Authorized representative	Since 2003.10
Dong Lianbo	Zhongxingxin	Director	2007.4–2010.5
	CASIC Shenzhen (Group) Company Limited	Director, Secretary to the Party Committee and deputy general manager	Since 2003
Zhang Taifeng	Zhongxingxin	Director	2007.4–2010.5
Shi Lirong	Zhongxingxin	Director	2007.4–2010.5
Wei Zaisheng	Zhongxingxin	Director	2007.4–2010.5
Qu Deqian	Zhongxingxin	Supervisor	2007.4–2010.5
Wang Yan	Zhongxingxin	Deputy general manager	2007.4–2010.5

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

Name	Name of shareholder	Position
Hou Weigui	Holds positions in 8 subsidiaries including Shenzhen ZTE Software Company Limited	Chairman
	Zhongxing WXT	Chairman
	Zhongxing Development	Chairman
	Zhongxing Energy Company Limited	Chairman
Wang Zongyin	Long March Launch Vehicle Technology, Co., Ltd	Vice chairman
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial (Group) Company	General manager
Zhang Junchao	Xi'an Microelectronics Technology Research Institute	Authorised representative
Li Juping	China Aerospace Electronic Technology Institute (formerly known as China Aerospace Times Electronics Corporation)	Chief engineer
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial (Group) Company	Secretary to the Party Committee and deputy general manager
Zhu Wuxiang	Tsinghua University	Professor
	Shenzhen Telling Telecommunications Holding Co., Ltd.	Independent director
	Shandong Shengli Co., Ltd.	Independent director
	Beijing Teamsun Technology Co., Ltd.	Independent director
	Goertek Inc.	Independent director
Chen Shaohua	Xiamen University	Professor
	廈門三五互聯科技股份有限公司	Independent director
Qiao Wenjun	Zhong Lun Law Firm	Partner/head of Shanghai Office
	Shanghai Jinqiao Export Processing Zone Development Co., Ltd.	Independent director
	上海協同科技股份有限公司	Independent director
Mi Zhengkun	Nanjing University of Posts and Telecommunications	Professor
Li Jin	Dragon Pharmaceutical Inc.	Independent director
Qu Xiaohui	Xiamen University	Head/professor
	Yunnan Baiyao Group Co., Ltd.	Independent director
Wei Wei	Peking University HSBC Business School	Associate dean/head
	Shenzhen Changyuan Group Company Limited	Independent director
	Dalian Zhangzidao Fishery Group Company Limited	
Chen Naiwei	Shanghai Allbright Law Offices	Partner/lawyer/professor
Zhang Taifeng	Holds positions in 3 subsidiaries including ZTE Kangxun	Chairman
Yin Yimin	Holds positions in 14 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Vice chairman
Shi Lirong	Holds positions in 10 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	Zhongxing Energy Company Limited	Director
He Shiyou	Holds positions in 3 subsidiaries including Shenzhen Zhongxing Mobile Technology Company Limited	Chairman/director
	Zhongxing WXT	Supervisor
Wei Zaisheng	Holds positions in 17 subsidiaries including ZTE Kangxun	Chairman/director
	Zhongxing WXT	Director
	深圳創新科技投資集團有限公司	Supervisor
	Zhongxing Energy Company Limited	Director

Name	Name of shareholder	Position
Xie Daxiong	Holds positions in 5 subsidiaries including Shenzhen Zhongxing Wireless Communication Equipment Company Limited	Chairman/director
Qiu Weizhao	ZTE HK	Director
Chen Jie	Holds positions in 13 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/general manager/secretary to the boad
Fan Qingfeng	Holds positions in 2 subsidiaries including 深圳市中聯成電子發展有限公司	Director
Tian Wenguo	Holds positions in 2 subsidiaries including Beijing Zhongxing Intelligent Transportation Systems Ltd.	Chairman/director
Zhao Xianming	Holds positions in 2 subsidiaries including 深圳中興無線通訊有限公司	Director
Pang Shengqing	Holds positions in 2 subsidiaries including ZTE Japan K.K.	Chairman/director
Zeng Xuezhong	Holds positions in 4 subsidiaries including Anhui Wantong Posts and Telecommunications Company, Limited	Chairman/director
Xu Huijun	Holds positions in 4 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company, Limited	Chairman/director/general manager
Ni Qin	天津中興軟件有限責任公司	Director
Zhang Renjun	中興香港埃塞俄比亞有限公司	Chairman
Wang Wangxi	Holds positions in 2 subsidiaries including Shenzhen Zhongruan Haina Technology Company, Limited	Director/Chairman of supervisory committee
Qu Deqian	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Director
	Holds positions in 2 companies including Shenzhen Zhongxing International Investment Co., Ltd. (深圳市中興國際投資有限公司)	Supervisor
	Zhongxing WXT	Deputy general manager
Wang Yan	Holds positions in 10 subsidiaries including Zhongxing Xinyu	Director/supervisor
Feng Jianxiong	Holds positions in 2 subsidiaries including Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	Supervisor

(V) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Change in the Directors, supervisors and senior management of the Company during the year.

(1) Change in the Directors of the Company during the year.

Mr Chen Shaohua, Mr Zhu Wuxiang and Mr Qiao Wenjun, three of the Independent Directors of the Company, resigned as Independent Directors of the Fourth Session of the Board of Directors of the Company on 21 July 2009, the date on which the six-year term of their office concluded.

At the First Extraordinary General Meeting of 2009 of the Company held on 30 June 2009, Ms. Qu Xiaohui, Mr. Chen Naiwei and Mr. Wei Wei were elected Independent Directors of the Fourth Session of the Board of Directors, with a term commencing on 22 July 2009 and ending on the conclusion of the Fourth Session of the Board of Directors (i.e., 29 March 2010).

(2) There was no change in the supervisors of the Company during the year.

(3) Changes in senior management of the Company during the reporting period

At the twenty-second meeting of the Fourth Session of the Board of Directors of the Company held on 19 March 2009, the resignation of Ms. Fang Rong as Senior Vice President of the Company and the appointments of Mr. Zhu Jinyun and Mr. Zhang Renjun, respectively, as Senior Vice President were approved.

2. Change in the Directors, supervisors and senior management of the Company after the end of the year.

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

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

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

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

The Remuneration and Evaluation Committee makes recommendations on the allowances for Directors by reference to the performance of Directors as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meetings of shareholders.

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

The Remuneration and Evaluation Committee conducts appraisals on the performance of the senior management annually, and determines their remuneration according to the appraisal results.

Remuneration for the Directors, Supervisors and senior management of the Company are determined and payable in accordance with the aforesaid provisions and procedures.

(VII) DIRECTORS' ATTENDANCE AT THE BOARD MEETINGS

Name of Directors	Position	Attendance required	Attendance in person (including attendance via video conference)	Attendance via communications means	Attendance by proxy	Absence	Two consecutive absences in person
Hou Weigui	Chairman and Non-executive Director	10	5	4	1	0	Nil
Wang Zongyin	Vice Chairman and Non-executive Director	10	2	4	4	0	Yes[Note 1]
Xie Weiliang	Vice Chairman and Non-executive Director	10	5	4	1	0	Nil
Zhang Junchao	Non-executive Director	10	4	4	2	0	Nil
Li Juping	Non-executive Director	10	4	4	2	0	Nil
Dong Lianbo	Non-executive Director	10	5	4	1	0	Nil
Yin Yimin	Executive Director	10	6	4	0	0	Nil
Shi Lirong	Executive Director	10	5	4	1	0	Nil
He Shiyou	Executive Director	10	4	4	2	0	Nil
Zhu Wuxiang	Independent Non-executive Director	5	3	1	1	0	Nil
Chen Shaohua	Independent Non-executive Director	5	4	1	0	0	Nil
Qiao Wenjun	Independent Non-executive Director	5	3	1	1	0	Nil
Mi Zhengkun	Independent Non-executive Director	10	4	4	2	0	Nil
Li Jin	Independent Non-executive Director	10	5	4	1	0	Nil
Qu Xiaohui	Independent Non-executive Director	5	2	3	0	0	Nil
Wei Wei	Independent Non-executive Director	5	2	3	0	0	Nil
Chen Naiwei	Independent Non-executive Director	5	2	3	0	0	Nil

Board meetings held during the year	10
Including: On-site meetings	2
Meetings via communications means	4
On-site meetings assisted by communications means	4

Notes 1: Deputy Chairman Wang Zongyin did not attend the twenty-third and twenty-fourth meetings of the Fourth Session of the Board of Directors owing to work reasons and appointed Chairman Mr. Hou Weigui to vote on his behalf.

(VIII) HEADCOUNT AND CLASSIFICATION OF GROUP EMPLOYEES

As at the end of the year, the Group had 70,345 employees, with an average age of 29. There were 56 retired employees.

1. Classification by specialisation as follows:

Specialisation	Number of employees	As percentage of total number of employees (%)
R&D	23,544	33.5
Marketing and sales	9,989	14.2
Customer service	12,241	17.4
Manufacturing	17,706	25.2
Administration	6,865	9.7
Total	70,345	100.0

2. Classification by academic qualifications:

Academic qualifications	Number of employees	Approximate percentage of total number of employees (%)
Doctorate degree	478	0.7
Master's degree	18,111	25.7
Bachelor's degree	29,212	41.5
Others	22,544	32.1
Total	70,345	100.0

Corporate Goverance Structure

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

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

I. Status of corporate governance

In accordance with the corporate governance initiatives led by the CSRC, 2009 has been designated as the year of corporate governance rectification for listed companies. In compliance with the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Rules Governing the Listing of Securities on the Shenzhen Stock Exchange and relevant laws and regulations of the CSRC, the Company has further advanced its corporate governance initiatives on top of the specific requirements for listed companies. Our corporate governance regime has been further regulated and improved as a result.

In accordance with CSRC Document 2008 No. 57, the Company revised the provisions of its Articles of Association on its cash dividend policy and formulated certain new regulations, including the Specific System for the Selection and Appointment of Accountants' Firm and the System for the Registration of Owners of Insider Information.

As at the end of the reporting period, the status of corporate governance of the Company was in compliance with the relevant requirements of the CSRC.

(I) **Shareholders and 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. Sufficient time is provided at general meetings of shareholders, which are to be convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

(II) **Controlling shareholder and the listed company:** the Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without adversely affecting the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles. The staffing, assets, financial affairs, organisation and business of the controlling shareholder are independent to those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the general meeting.

(III) **Directors and the Board:** the Company appoints directors in strict compliance with the procedures set out its Articles, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedure for Board of Directors meetings, and board meetings are convened and held in strict compliance with the Articles and Rules of Procedure of the Board of Directors Meetings. To optimise the corporate governance structure, three specialist committees — the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the convenors in each of these committees are Independent Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

Corporate Goverance Structure

(IV) **Supervisors and the Supervisory Committee:** The Supervisors possess professional knowledge and work experience in legal, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the President and other members of the senior management, and safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles and the Rules of Procedure for Supervisory Committee Meetings.

(V) **Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management's Remuneration and Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors of the Company has formulated the Phase I Share Incentive Scheme of the Company, which has come into effect upon approval by the general meeting of the Company.

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

(VII) **Information disclosure and transparency:** the Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with Rules on Fair Information Disclosure by Companies Listed on the Shenzhen Stock Exchange and the Articles in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. There were no instances of majority shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during 2009.

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

In accordance with the requirements of the CSRC, the Articles of Association and the Independent Directors' System of ZTE Corporation, the Company has formulated the System of the Independent Directors' Duties on Annual Reporting to leverage the role of independent directors in information disclosure.

During the year, the Independent Directors played a significant role in optimising the corporate governance structure of the Company and protecting the interests of minority shareholders. During the year, the Independent Directors of the Company raised no objections on the resolutions passed by the Board of Directors meetings and other matters of the Company. In relation to important matters for which they were required to give independent opinions (including connected transactions, third-party guarantees, external investments and the granting of reserved Subject Shares under the Share Incentive Scheme), the Independent Directors have diligently reviewed the matters concerned and have issued written independent opinions. The Independent Directors provided valuable and professional recommendations on major decisions by the Company, improving the rationality and objectiveness of the Company's decisions. Attendance of Independent Directors of the Company at Board of Directors meetings during 2009 was as follows:

Name of Independent Directors	Number of Board meetings required to attend	Attendance in person	Attendance by proxy	Absence
Zhu Wuxiang [Note]	5	4	1	0
Chen Shaohua [Note]	5	5	0	0
Qiao Wenjun [Note]	5	4	1	0
Mi Zhengkun	10	8	2	0
Li Jin	10	9	1	0
Qu Xiaohui [Note]	5	5	0	0
Wei Wei [Note]	5	5	0	0
Chen Naiwei [Note]	5	5	0	0

Note: Mr. Zhu Wuxiang, Mr. Chen Shaohua and Mr. Qiao Wenjun were released from their office upon the conclusion of a six-year term in July 2009. Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei became Independent Director of the Company with effect from July 2009.

III. "Five Separations"

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

With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

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

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

With respect to business, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in any business identical or similar to that of the Company.

Corporate Goverance Structure

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

IV. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management of the Company

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is mainly responsible for formulating and examining proposals for the management of remuneration and performance of the Directors and senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal.

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

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

Internal control of the Company is implemented under the leadership of the Audit Committee under the Board, while day-to-day internal control tasks are carried out by the Risk Management Committee, the Internal Control Task Force and the Internal Audit Department. The Risk Management Committee is the core department for internal control set-up, being focused on risk assessment and the creation of an environment for internal control. The Internal Control Task Force is focused on streamlining and regulating internal control activities, as well as the communication of information on the implementation of internal control. The internal Audit Department conducts internal control audit and relevant tests on a regular basis and exercises supervisory functions.

(II) Establishment and Improvement of Internal Control Regulation

The Company has developed various internal control rules and regulations, including the Rules of Procedure of the General Meetings, Rules of Procedure of the Board of Directors Meetings, Rules of Procedure of the Supervisors' Meetings, Independent Director System, Administrative Rules of the Company on Information Disclosure, Internal Control System of the Company and Administrative Rules of the Company on Issue Proceeds, in accordance with the Company Law, the Securities Law, the Corporate Governance Standards for Listed Companies, Guidelines for Internal Control of Listed Companies and other laws and regulations and regulatory documents and taking into account its specific conditions. Our internal control establishment has basically covered all operating segments of the Company, including but not limited to: internal operations and management, finance guarantees, investment management, connected transactions, treasury management and information disclosure, etc. In 2009, the Company further enhanced its business regulation, risk control and subsidiary management by making improvements its existing systems from time to time, while formulating and implementing new internal regulations including Administrative Measures for Risk Management in Project Implementation, Administrative Measures for Risk Clauses in International Sales Contract and Measures for the Performance Appraisal of Externally Deployed Financial Officers.

(III) Self-assessment of Internal Supervision and Internal Control

With the establishment of control systems and mechanisms in the five aspects of environment for control, risk assessment, business controls, information and communications and supervision, the existing internal control system of the Company is sound, reasonable, effective, being basically in compliance with relevant laws and regulations of the State and the requirements of securities regulatory authorities departments and in line with the practical needs of the production operations of the Company. The management places a strong emphasis on internal control and makes timely improvements to any internal control deficiency identified in the process of business development and auditing.

The Company will continue to strengthen internal control to ensure stable and sound development, driving compliance and implementation and enhancing the efficiency and benefits of internal control by making improvements to relevant systems and enhancing staff awareness, in response to any changes in the external business environment and requirements of new polices and regulations of relevant authorities and taking into account actual needs arising from the Company's development.

(IV) Deficiencies and rectification of internal control

The Company has established comprehensive internal control regimes and risk management regimes in accordance with the Company Law and the Guidelines for Internal Control of Listed Companies and taking into account its own business characteristics to ensure ongoing, healthy corporate development. However, with its rapid business development and expansion, certain aspects have emerged that have yet to be covered or regulated by the existing systems. For example, processes and approaches that are being adopted in the management of certain business are proved effective but have yet to be institutionalized in a timely manner. Moreover, detailed management of certain businesses needs to be strengthened. The establishment and implementation of certain internal control systems at subsidiaries also needs more stringent inspection and supervision. In order to address these deficiencies, further optimization in business processes and improvements in internal control are required.

As a company listed in Shenzhen and Hong Kong, the Company seeks to comply with relevant regulatory provisions of the two places and strives to improve its corporate governance standards by enhancing its internal control regime and system development with a special emphasis on risk management, in order to ensure the effectiveness and comprehensiveness of its internal control system.

The Company will be engaged in ongoing self-assessment and make focused efforts for improvements in the following weak spots:

1. To enhancing operability of the internal control system to take into account the characteristics of individual businesses, striking balance between cost and benefits of internal control;

2. To enhance training of frontline staff in the principles and practices of risk control and to facilitate the building and implementation of risk management regimes at business department levels, so that business decisions are taken on the basis of scientific risk evaluations;

3. To enhance learning from successful experience of international companies in risk management and internal control and apply them in the business expansion of the Company;

4. To enhance the adaptability of the Company and to develop an ongoing improvement mechanism for internal control as a means to assure healthy development of the Company which is rapid and yet sustainable.

(V) Self-inspection and overall assessment of the Company's internal control

The Audit Department of the Company has conducted inspection and testing of the Company's internal control in 2009 in accordance with the internal control requirements for listed companies laid down by securities regulatory authorities in Shenzhen and Hong Kong, taking into account the business characteristics of the Company. The Audit Department is of the view that: the Company's internal control system was sound and effectively implemented in compliance with relevant regulations and requirements of securities regulatory authorities of Shenzhen and Hong Kong.

The Company will continue to improve and complement its internal control system to cater to any needs arising from business development and possible changes in internal organisation. With enhanced operability, the Company's internal control regime will play a more significant role in its daily operation and management to facilitate prudent and sustainable development.

For details of the Company's internal control, please refer to the 2009 Self-assessment Report on Internal Control of ZTE Corporation published simultaneously with this report.

Corporate Goverance Structure

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

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

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

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

In view of the above, the Supervisory Committee is of the view that the self-assessment of the Company's internal control is comprehensive, true and accurate, duly reflecting the status of the Company's internal control.

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

1. The Company has established a comprehensive internal control regime in compliance with relevant laws, administrative regulations and departmental rules and regulations of the State. In 2009, the Company continued to advance its internal control development in an orderly manner, taking into account the specific conditions of its business development and internal control requirements. During the reporting period, the Specific System for the Selection and Appointment of Accountants' Firm and the System for the Registration of Owners of Insider Information were formulated.

2. The Company has established relevant control regimes and mechanisms for each of the five aspects of environment for control, risk assessment, business controls, information and communications and supervision to ensure smooth business operation and management as well as sound and effective implementation of the systems.

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

VI. Accountability for Significant Errors in Information Disclosure of Annual Reports

In accordance with the requirements and principles of the 2009 Corporate Governance Regulation Working Meeting of Shenzhen Listed Companies organized by Shenzhen CSRC in November 2009, the Circular on Proper Publication of 2009 Annual Reports for Listed Companies and Related Work (CSRC Circular [2009] No. 34) published by CSRC in December 2009 and the Notice on Requiring Listed Companies to Formulate the System of Accountability for Significant Errors in Information Disclosure of Annual Reports issued by the Shenzhen CSRC in February 2010, and with a view to further improving the standard of the Company in regulated operation and enhancing the truthfulness, accuracy and completeness of information disclosure in annual reports, the Company has formulated the System of Accountability for Significant Errors in Information Disclosure of Annual Reports in accordance with laws, regulations and regulatory documents including the Securities Law of the People's Republic of China, Accounting Law of the People's Republic of China, Administrative Measures on Information Disclosure of Listed Companies, Corporate Governance Standards for Listed Companies, Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, the Securities and Future Ordinance of Hong Kong and Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as well as the Articles of Association of ZTE Corporation and the Administrative Rules on Information Disclosure of ZTE Corporation, taking into account the specific conditions of the Company. The System, which was considered and approved at the second meeting of the Fifth Session of the Board of Directors, will enhance responsibility for better quality and transparency in annual report disclosures by further enhancing the establishment of an accountability mechanism for significant errors in information disclosure of annual reports and increasing the accountability of officers responsible for annual report disclosures.

VII. Corporate Social Responsibility

In 2009, the Company continued to fulfill its corporate social responsibility in a proactive manner while pursuing stable business growth. Corporate social responsibility has become an integral part of our corporate values.

The Group published a new mission statement on corporate social responsibility in 2009 that incorporated environment-friendly initiatives in product development, manufacturing, supply-chain, logistics and engineering, as it strived to develop a sustainable "green" network in a joint effort with the carriers, while encouraging commitment to social responsibility on the part of its up/downstream business associates through enhanced supply-chain management and customer training. Our efforts in corporate social responsibility have been widely recognized by governments, international organizations and media.

For details of the Company's corporate social responsibility report, please refer to Corporate Social Responsibility Report of ZTE Corporation published simultaneously with this report.

Corporate Goverance Structure

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

The Company is dedicated to improving its corporate governance standards and strives to increase its enterprise value by adopting stringent corporate governance practices, with a view to ensuring sustainable development and maximising value for its shareholders in the long term.

The Company had fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2009.

I. Shareholders and Investors' Relations

(I) Shareholders

The Company adopts relevant measures to facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with relevant laws and regulations of the PRC or otherwise and in accordance with pertinent requirements under the Articles of Association of the Company.

Details of the shareholding structure of the Company are set out in the section headed "Changes in Share Capital and Information of Shareholders" of this annual report.

The Company has always maintained effective communications with its shareholders by reporting the Group's results and operations to Shareholders through numerous official channels, such as disclosures in annual reports, interim reports and quarterly reports. Shareholders may also express their views or exercise their rights through communication channels set up by the Group, such as the investors' hotline and e-mail contacts. The Group's website is updated regularly to provide investors and the public with timely information of the Group's latest developments. The notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association of the Company and the Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor reception. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and members of the senior management will attend the meeting on a best effort basis and engage in direct dialogue with the shareholders who will be given time to raise questions.

Details of the Company's reception of investors during 2009 are set out in "XII. (14) of this report headed "Reception of Investors and Analysts, Communications and Press Interviews".

In the coming year, the Company will continue to enhance communications with investors so that they will come to offer more support and concern for the Company on the back of better understanding.

II. Board of Directors

Members of the Board of Directors seek to act in the best interests of the Company, providing leadership and supervision over the Group and assuming joint and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

(I) Functions of the Board

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational direction and investment plans of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor the business and financial performance and formulate the annual financial budgets and final accounts of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2009. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board

The Board of the Company comprises 14 Directors, including 1 Chairman and 2 Vice Chairmen. Save for the Chief Executive Officer and 2 Executive Directors, all Directors are Non-executive Directors independent of the management, including 5 Independent Non-executive Directors who have substantial experience and possess academic and professional qualifications in the telecommunications, financial, legal and banking sectors and who are able to exercise influence in a proactive manner, and 6 Non-executive Directors who have extensive business and management experience. Their presence enables stringent review and control of the management procedures and ensures that the interests of shareholders as a whole, including minority shareholders, are safeguarded. The profile and terms of office of the Directors are set out under Part VI of this annual report headed "Directors, Supervisors, Senior Management and Staff".

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

(III) Appointment and Removal of Directors

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

Corporate Goverance Structure

(IV) Board Meetings

1. The Articles requires that the Board of Directors convene at least 4 meetings a year. In 2009, the Board of Directors of the Company convened 10 working meetings, the details of which are set out under IX.16 headed "Daily Work of the Board of Directors" of this annual report. Attendance of Directors at the meetings of the Board of Directors in 2009 was set out in the following table:

Directors	Attendance in person	Attendance by proxy
Chairman and Non-executive Director		
Hou Weigui	9/10	1/10
Vice Chairman and Non-executive Director		
Wang Zongyin	6/10	4/10
Xie Weiliang	9/10	1/10
Non-executive Director		
Zhang Junchao	8/10	2/10
Li Juping	8/10	2/10
Dong Lianbo	9/10	1/10
Executive Director		
Yin Yimin	10/10	—
Shi Lirong	9/10	1/10
He Shiyou	8/10	2/10
Independent Non-executive Director		
Zhu Wuxiang	4/5	1/5
Chen Shaohua	5/5	—
Qiao Wenjun	4/5	1/5
Mi Zhengkun	8/10	2/10
Li Jin	9/10	1/10
Qu Xiaohui	5/5	—
Wei Wei	5/5	—
Chen Naiwei	5/5	—

2. As stipulated by the Articles, all Directors should be given 14 days' notice prior to the commencement of a regular Board of Directors meeting and 3 days' notice prior to the commencement of an interim Board of Directors meeting. The secretary to the Board of Directors should provide details of a regular Board of Directors meeting (including information in relation to each of the specialist Board committees) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

   As for interim Board of Directors meetings which are convened by means of telephone or video conference at the request of the Company's management, information about the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board of Directors would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist Directors to ensure that the procedures of the Board of Directors is in compliance with the applicable regulations, such as the Company Law of the People's Republic of China, the Articles and the Hong Kong Stock Exchange Listing Rules.

3. Minutes of each Board of Directors meeting should be signed by the attending Directors and person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.

4. Where any matters (including connected transactions) to be considered by the Board of Directors are deemed to involve a material conflict of interest, any Directors who are by any means connected with such transactions would abstain from voting.

(V) Measures Taken to Ensure the Performance of Duties by Directors

1. The Company would supply the Director with all the relevant and necessary information when the Director takes office. The Company would subsequently provide the Directors with all the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange for the Directors to attend relevant continuing professional training courses, in order to assist them to fully understand their duties as a director under the requirements of relevant laws and regulations, such as the Listing Rules, as well as gaining comprehensive insight in the Company's operation in a timely manner. To ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organize on-site visits and communications with the Chief Financial Officer and Auditor for the Independent Non-executive Directors.

2. Whenever the Directors of the Company are required to provide an opinion in relation to matters including provision of third party guarantees, appropriation of funds and connected transactions, the Company would engage relevant independent professional bodies, such as auditors, independent financial advisors and lawyers, to provide independent and professional advice so as to assist the Directors in performing their duties.

3. The Company has taken out liability insurance for Directors, Supervisors and senior management for a term of 1 year with AIU Insurance Company Shenzhen Branch in respect of potential legal actions arising from the performance of duties by the Directors. The policy was considered and approved at the twenty-eighth meeting of the fourth session of the Board of Directors held on 19 August 2009 with the mandate of the general meeting.

Corporate Goverance Structure

(VI) Board Committees

There are 3 specialist committees under the Board of Directors, namely the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. On 30 March 2007, the fourth session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected for the fourth session of the Board of Directors. On 22 July 2009, new members were elected to the specialist committees by the fourth session of the Board of Directors. (For details of the new elections, please refer to VI.(5) of this annual report headed "Changes in Directors, Supervisors and Senior Management.") The terms of reference defining the responsibilities and delegation for each of the specialist committees have been formulated. The order of meeting for the specialist committees is implemented by reference to the statutory procedures for meetings of the Board of Directors.

1. The Remuneration and Evaluation Committee

(1) The role and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management based on the management policies and structures for the remuneration and performance of Directors and senior management laid down by the Board of Directors.

(2) Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Directors and 2 Non-executive Directors. The convenor of the Remuneration and Evaluation Committee is Independent Non-executive Director Mr. Zhu Wuxiang. Members of the committee include Mr. Hou Weigui, Mr. Wang Zongyin, Mr. Chen Shaohua, Mr. Mi Zhengkun and Mr. Li Jin. Following the election of new Independent Directors on 22 July 2009, the convenor of the Remuneration and Evaluation Committee is Independent Non-executive Director Mr. Wei Wei, and members of the committee include Mr. Hou Weigui, Mr. Wang Zongyin, Mr. Mi Zhengkun, Mr. Li Jin and Ms. Qu Xiaohui.

In 2009, the Remuneration and Evaluation Committee convened 4 meetings. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Zhu Wuxiang	2/2	—
Hou Weigui	4/4	—
Wang Zongyin	3/4	1/4
Chen Shaohua	2/2	—
Mi Zhengkun	3/4	1/4
Li Jin	3/4	1/4
Wei Wei[Note 1]	2/2	—
Qu Xiaohui[Note 1]	2/2	—

Note 1: On 22 July 2009, 2 meetings of the Remuneration and Evaluation Committee were held after the election of new Independent Directors of the Company.

(3) The decision-making process and criteria for determining remuneration for Directors and senior management

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

The Remuneration and Evaluation Committee reviews remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals.

(4) Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 4 meetings in 2009 to:

a) Review the remuneration packages for 2008; performance appraisal of the President and other senior management of the Company for 2008 and determining their remuneration for 2008;

b) Review and approve the 2009 remuneration budget of the Company;

c) Review and approve the performance management plan for the President and other senior management of the Company for 2009.

d) Review and approve the resolution on the renewal of the liability insurance for Directors, Supervisors and senior management and submission of the same to the Board of Directors for consideration and approval.

e) Perform work relating to the first unlocking of the Subject Shares under the Phase I Share Incentive Scheme of the Company.

2. The Nomination Committee

(1) The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors for its approval, and implements the decisions made by the Board of Directors.

(2) Members and Meetings of the Nomination Committee

The Nomination Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. The convenor of the Nomination Committee is Independent Non-executive Director Mr. Mi Zhengkun. Members of the committee included Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Li Juping, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Li Jin. Following the election of new Independent Directors on 22 July 2009, the convenor of the Remuneration and Evaluation Committee is Independent Non-executive Director Mr. Mi Zhengkun, and members of the committee include Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Li Juping, Mr. Li Jin, Mr. Wei Wei and Mr. Chen Naiwei.

Corporate Goverance Structure

In 2009, the Nomination Committee convened 2 meetings. Attendance of the meetings was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Mi Zhengkun	2/2	—
Hou Weigui	2/2	—
Xie Weiliang	2/2	—
Li Juping	2/2	—
Zhu Wuxiang	2/2	—
Qiao Wenjun	2/2	—
Li Jin	2/2	—
Wei Wei Note 1	—	—
Chen Nai Wei Note 1	—	—

Note 1: On 22 July 2009, no meeting of the Nomination Committee was held after the election of new Independent Directors of the Company.

(3) Procedures for the election and appointment of Directors and the senior management

The Nomination Committee conducts extensive searches for candidates of Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the potential candidates, a meeting of the Nomination Committee will be convened to examine the qualifications of the initial nominees based on the conditions for appointment of Directors and senior management. One month prior to the election of new Directors, the Nomination Committee will propose candidates for directorship to the Board of Directors and furnish the Board with relevant information. Prior to the appointment of any new senior management staff, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management staff and furnish the Board with relevant information.

(4) Work of the Nomination Committee during the year

In 2009, the Nomination Committee held 2 meetings to consider and approve personnel changes in the senior management, including the appointment of Mr. Zhang Renjun and Mr. Zhu Jinyun each as Senior Vice President of the Company and the resignation of Ms. Fang Rong as Senior Vice President of the Company for personal reasons, and submit the same to the Board of Directors for consideration and approval. Ms. Qu Xiaohui, Mr. Chen Naiwei and Mr. Wei Wei as candidates for Independent Directorship of the Company and submit the same to the general meeting for consideration and approval.

3. The Audit Committee

(1) The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and dismissal, remuneration and terms of engagement of external auditors, supervising the implementation of the Company's internal audit system, reviewing the financial information of the Company and its disclosure (including the inspection of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports as to whether they are complete, as well as the review of significant opinions on financial reporting contained in the statements and reports), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

(2) Members and Meetings of the Audit Committee

The Audit Committee comprises 7 members, including 4 Independent non-executive Directors and 3 Non-executive Directors. The convenor of the Audit Committee is Independent Director Mr. Chen Shaohua. Members of the committee included Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Zhu Wuxiang, Mr. Qiao Wenjun and Mr. Mi Zhengkun. Following the election of new Independent Directors on 22 July 2009, The convenor of the

Audit Committee is Independent Non-executive Director Ms. Qu Xiaohui. Members of the committee included Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Wei Wei, Mr. Chen Naiwei. and Mr. Mi Zhengkun. The Audit Committee was in compliance with Rule 3.21 of the Hong Kong Stock Exchange Listing Rules.

In 2009, the Audit Committee convened 7 meetings. Attendance of the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Chen Shaohua	3/4	1/4
Hou Weigui	6/7	1/7
Zhang Junchao	5/7	2/7
Dong Lianbo	6/7	1/7
Zhu Wuxiang	2/4	2/4
Qiao Wenjun	3/4	1/4
Mi Zhengkun	5/7	2/7
Qu Xiaohui[Note 1]	3/3	—
Wei Wei[Note 1]	3/3	—
Chen Naiwei[Note 1]	3/3	—

Note 1: On 22 July 2009, 3 meetings of the Auditing Committee were held after the election of new Independent Directors of the Company.

(3) Work of the Audit Committee during the year

The Audit Committee convened 7 meetings in 2009 to:

a) Review the financial report of the Company for the year ended 31 December 2008, and submit the same to the Board of Directors for its consideration and approval;

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

c) Review resolutions of the Company on making substantial asset impairment provisions for 2008, and submit the same to the Board of Directors for its consideration and approval;

d) Review the self-assessment report on internal control of the Company for the year ended 31 December 2008;

e) Review the internal audit and internal control testing reports of the Company for the year ended 31 December 2008;

f) Review the audit fees payable to the PRC and international auditors for the year ended 31 December 2008 and submit the same to the Board of Directors for its consideration and approval;

g) Review resolutions of the Company on the appointment of PRC and international auditors for 2009 and submit the same to the Board of Directors and general meeting for consideration and approval;

h) Review the summary report on the 2008 audit of the Company performed by the PRC and international auditors;

i) Review the resolution of the Company on the "Statement on the Application of Proceeds from the Issue of Bonds cum Warrants" and submit the same to the Board of Directors for its consideration and approval;

j) Review the report on the preparation of the report of the Company for the first quarter of 2009 and submit the same to the Board of Directors for its consideration and approval;

Corporate Goverance Structure

k) Review the interim financial report of the Company for the six months ended 30 June 2009, and submit the same to the Board of Directors for its consideration and approval;

l) Review the resolution of the Company on the election of the convenor of the Audit Committee of the Fourth Session of the Board of Directors;

m) Review the internal control report on of the Company for the six months ended 30 June 2009;

n) Review the internal audit and internal control testing reports of the Company for the six months ended 30 June 2009;

o) Review the resolution of the Company on the "Specific System for the Selection and Appointment of Accountants' Firm";

p) Review the report on the preparation of the report of the Company for the third quarter of 2009 and submit the same to the Board of Directors for its consideration and approval.

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

The scopes of delegation and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 160 of the Articles, while the management should be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialist committees to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Group.

(VIII) Chairman and the Chief Executive Officer

The role of the Chairman is separated from that of the President of the Company and their respective duties and functions are clearly defined in the Articles. Duties of the Chairman and the President of the Company are set forth in Articles 164 and 180 of the Articles, respectively.

The Chairman is responsible for the operation of the Board of Directors and advising the Board of Directors and the Group on the overall strategy and policies of the Company so as to ensure that all Directors act in the best interest of the shareholders.

The President of the Company is responsible for leading the management team of the Group to take charge of the day-to-day management and operation of the Company according to the objectives and directions set up by the Board of Directors and the internal control policy and procedure of the Company.

The President of the Company should maintain ongoing communications with the Chairman and all Directors and report his work to the Board of Directors regularly to ensure that all Directors are well informed of any material business development of the Group.

III. The Supervisory Committee

(I) Members and Meetings of the Supervisory Committee

The Supervisory Committee of the Company comprises Mr. Zhang Taifeng (Chairman), Mr. Wang Wangxi, Ms. He Xuemei, Mr. Qu Deqian and Ms. Wang Yan. For details of changes in supervisors please refer to VI.(5) of this annual report headed "Changes in Directors, Supervisors and Senior Management"

The Supervisory Committee convened 5 meetings in 2009. Attendance of meetings is set out as follows:

Members of the Supervisory Committee	Attendance in person	Attendance by proxy
Zhang Taifeng	5/5	—
Wang Wangxi	3/5	2/5
He Xuemei	3/5	2/5
Qu Deqian	5/5	—
Wang Yan	3/5	2/5

(II) Details of the Supervisory Committee meetings convened during the year and the work of the Supervisory Committee in 2009 are set out in the section of this annual report headed "XI. Report of the Supervisory Committee".

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

(I) Remuneration

Please refer to VI.(2) of this annual report headed "Changes in the shareholdings and annual remuneration of Directors, supervisors and senior management" for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for the year are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

(1) Service contracts and contractual interests of the Directors and Supervisors

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

(2) Interests of Directors and Supervisors in contracts

None of the Directors and Supervisors of the Company was materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2009.

Corporate Goverance Structure

(3) Interests of Directors, Supervisors and the President in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2009 are set out in VI.(2) of this annual report headed "Changes in the Shareholdings and Remuneration of the Company's Directors, Supervisors and Senior Management".

Save as disclosed above, as at 31 December 2009, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

As at 31 December 2009, none of the Directors, Supervisors or the President, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

(4) Securities transactions by Directors and Supervisors

The Company has adopted code provisions relating to the dealing in the Company's shares by Directors contained in the Model Code. After making specific enquiry with all Directors and Supervisors, the Company confirms that all Directors and Supervisors of the Company were in full compliance with the Model Code throughout 2009.

V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the company for the year are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in Note 33 to the financial statements prepared in accordance with HKFRSs.

VI. Auditors' Remuneration

Ernst & Young Hua Ming and Ernst & Young acted as the Group's PRC and Hong Kong auditors, respectively.

Ernst & Young Hua Ming has been appointed the Company's PRC auditors for 5 consecutive years from 2005 to 2009. Ernst & Young has been appointed the Company's Hong Kong auditors for 6 consecutive years since 2004.

Items	Amount	Auditors
Audit fees 2009	RMB1 million	Ernst & Young Hua Ming
Audit fees 2009	HK$5.18 million	Ernst & Young

VII. Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's internal control systems to ensure its effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries. The Directors are responsible for reviewing the financial reporting functions to determine whether there is sufficient manpower.

The Company continued to improve its internal control system in 2009 and monitor on a daily ongoing basis any significant changes in five areas, namely the environment for control, risk assessment, business controls, information and communications and supervision. Timely and effective assessments were conducted in respect of any internal control elements that might have a significant impact. Effective implementation of the internal control system is assured through a fourfold process: regular review of key risk exposures, processes and internal control designs in response to key risk exposures, process implementation, effectiveness assessment of internal controls and measures for improvement.

The Audit Committee under the Board of Directors convenes regular meetings each year in accordance with relevant laws and regulations to review the effectiveness of and identify rooms for further improvements in financial, operational and supervisory controls and the risk management procedures. Reports are being submitted to the Board of Directors of the Company on the implementation of internal control measures.

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation during the year ended 31 December 2009.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. A self-assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2009, please refer to the sections headed "I. Status of Corporate Governance" and "V. Establishment, Improvement and Self-Assessment of the Company's Internal Control System" in "PART I: CORPORATE GOVERNANCE WORK REPORT".

General Meetings of Shareholders

The 2008 annual general meeting was held on-site on 19 May 2009. The announcement of resolutions passed at the meeting was published in China Securities Journal, Securities Times and Shanghai Securities News on 20 May 2009.

The Company convened the first extraordinary general meeting of 2009 on-site on 30 June 2009. The announcements of resolutions passed at the meeting were published in China Securities Journal, Securities Times and Shanghai Securities News on 1 July 2009.

The Company convened the second extraordinary general meeting of 2009 on-site on 29 December 2009. The announcements of resolutions passed at the meeting were published in China Securities Journal, Securities Times and Shanghai Securities News on 30 December 2009.

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited financial statements of the Company and the Group for the year ended 31 December 2009.

BUSINESS OF THE GROUP

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

FINANCIAL RESULTS

Please refer to page 122 and page 249 of this annual report for the results of the Group for the year ended 31 December 2009 prepared in accordance with PRC ASBEs and HKFRSs.

FINANCIAL SUMMARY

Set out on pages 18–19 of this annual report are the results and financial position summary of the Group for the three financial years ended 31 December 2009 prepared in accordance with the PRC ASBEs.

Set out on pages 20–21 of this annual report are the results and financial position of the Group for the five financial years ended 31 December 2009 prepared in accordance with HKFRSs, which have been extracted from the respective financial statements of the Group for each of the five financial years ended 31 December 2005, 2006, 2007, 2008 and 2009 prepared in accordance with HKFRSs.

(I) Business Review for 2009

Overview of the PRC telecommunications industry in 2009

China's telecommunications industry sustained stable development in 2009, as domestic carriers were engaged in vigorous 3G network building to take advantage of favourable government policies. According to statistics published by the Ministry of Industry and Information Technology ("MIIT"), revenue for the domestic telecommunications sector grew by 3.9% to RMB842.43 billion for 2009, as compared to the same period last year. New fixed asset investments grew 26.1% to RMB372.49 billion. In overview, the process of the industrialisation and commercialisation of 3G networks in China was gaining pace, with the three leading carriers having made direct investments of RMB160.90 billion in aggregate in 3G network construction.

Overview of the global telecommunications industry in 2009

The global 3G business moved into the stage of rapid development in 2009 having undergone a prolonged induction period. Despite a slowdown in growth, revenue from global mobile voice businesses continued to account for a dominant share of carriers' income. The data business became the fastest-growing segment thanks to the fast penetration of 3G and the development of mobile Internet connections, while the business of fixed-line broadband sustained growth as usage was driven by multi-media applications on the Internet. Region-wise, the Asia Pacific has surpassed North America and Western Europe to claim the world's largest share of telecommunications investments, with growing investments in segments such as mobile communication, broadband access, optical transmission and data communication.

For carriers in developed markets, mobile broadband services and value-added customer services represented the major growth drivers in 2009. Carriers were more focused on cost efficiency and users' experience, seeking to lower overall network ownership costs and operating costs in particular, while network quality, environment-friendliness, smooth upgrades and resource recycling, etc were also top on the agenda. In emerging markets, the development of carriers' mobile business was driven by the ability in cost-effective and efficient network building and the massive demand for terminal products, while the efficient utilization of frequency resources was also a concern of carriers given their relative scarcity and the fast pace of user growth.

Report of the Board of Directors

A new scenario in competition was emerging in the equipment manufacturing industry, as certain players were gaining control with increasing market shares and influence, while others were seeking to diversify their products or moving to exit the mainstream market.

Operating results of the Group for 2009

The Group performed strongly amid adverse market conditions in 2009, capitalising rare market opportunities to report growth in scale and profit. Operating revenue of the Group based on financial statements prepared in accordance with PRC ASBEs and HKFRSs amounted to RMB60.273 billion, representing a year-on-year growth of 36.08%. Net profit grew 48.06% to RMB2,458 million.

By market

The domestic market

The Group reported operating revenue of RMB30.404 billion in the domestic market during 2009, representing a year on-year growth of 74.07%. The construction of 3G networks was strongly supported by the government as a new driver of economic growth. Leveraging the opportunity of full-scale 3G construction in the nation, we emerged become China's largest supplier of 3G network equipment as we dominated in the network construction tenders of the three leading carriers and developed positive and balanced strategic partnerships with the big three. Meanwhile, strong sales were reported for our TD-SCDMA, CDMA and XPON products.

The international market

During reporting period, the Group's revenue from its international operations grew 11.34% to RMB29.869 billion and accounted for 49.56% of its total operating revenue. We overcame the impact of the financial crisis and sustained growth in a lacklustre international telecom market on the back of its cost-competitiveness, technological edge and financial strengths. We made successive breakthroughs in the high-end markets around the world, as our principal products (with the exception of terminals), such as carrying networks, access networks and service networks, were gaining footholds in important markets in Europe and America, which are set to become significant growth spots for the Company.

By products

Carriers' network

In 2009, the Group attained significant breakthroughs and growth in the mainstream product of carriers' network. In wireless products, the ability of the WCDMA and LTE products to deliver was gaining recognition among top-rate customers, while the Group's GSM and WCDMA products sustained rapid year-on-year growth with steady increase in global market shares. Our CDMA, TD-SCDMA, WiMAX and core network service products continued to lead the market, while our carriage products received a significant boost in overall competitiveness with breakthroughs in key technologies. Our continuous innovation in wireline fixed network products also enabled us to maintain a leading edge in the FTTx market. In terms of new products, the Group orchestrated a strategic transformation in product development through technological upgrades and operational innovations in service software products, capitalising on new opportunities presented by the Mobile Internet and the Internet of Things.

While breaking into new markets, the Group was also aware of the importance of constantly improving its ability in full network delivery, key network indicator protection, engineering quality management and work progress control. Engineering service centres were set up to provide tailor-made services to customers that would meet the diversified needs of carriers, so that the Company could readily compete on its project delivery capabilities and premium service quality.

In the mainstream market, the Group topped the overall ranking for the PRC 3G market during the reporting period, while revenue from Europe and America was growing fast as a percentage of the Group's sales revenue from international markets. We succeeded in making major breakthroughs in the mainstream market on the back

of our strengths in research and development as well as our ability in swift network delivery, winning contracts to build commercial networks in major cities around the world for mainstream carriers such as CSL, KPN and Telenor.

Terminals

The Group's terminal business sustained rapid growth throughout 2009, as its global ranking in terms of handset delivery continued to rise. In the domestic market, we reported stable growth in our terminal products throughout the year thanks to the thriving 3G market. On the international front, we continued to make breakthroughs in important country markets and mainstream carriers, resulting in a more balanced global presence. Sales of our terminal products were on the rise in Europe and the United States, auguring well for the realization of our development and business objectives for 2010.

Telecommunication software systems, services and other products

Income growth for the segment in 2009 was driven by stronger sales of fixed terminals in the domestic market and elsewhere in Asia, as well as strong growth in service income in the home market.

(II) Discussion and analysis prepared under PRC ASBEs

The financial data below are extracted from the Group's audited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group's financial tatements audited by Ernst & Young Hua Ming and the accompanying notes thereto set out in the Annual Report.

Report of the Board of Directors

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

Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	60,272.6	40,623.3	32.60%	36.08%	37.74%	(0.82)
Total	**60,272.6**	**40,623.3**	**32.60%**	**36.08%**	**37.74%**	**(0.82)**
II. By product						
Carriers' networks	39,982.3	26,035.4	34.88%	38.04%	42.15%	(1.88)
Terminal	13,071.5	9,654.7	26.14%	34.86%	30.59%	2.41
Telecommunication software systems, services and other products	7,218.8	4,933.2	31.66%	28.06%	30.36%	(1.21)
Total	**60,272.6**	**40,623.3**	**32.60%**	**36.08%**	**37.74%**	**(0.82)**
III. By region						
The PRC	30,404.3	20,363.6	33.02%	74.07%	82.12%	(2.96)
Asia (excluding the PRC)	13,198.6	10,253.0	22.32%	26.51%	30.64%	(2.45)
Africa	6,860.6	3,189.4	53.51%	(26.32%)	(39.14%)	9.80
Others	9,809.1	6,817.3	30.50%	38.49%	30.55%	4.22
Total	**60,272.6**	**40,623.3**	**32.60%**	**36.08%**	**37.74%**	**(0.82)**

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

By product	Operating revenue (RMB in millions)	Operating cost (RMB in millions)	Operating profit margin
Carriers' networks	39,982.3	26,035.4	34.88%
Terminal	13,071.5	9,654.7	26.14%
Telecommunication software systems, services and other products	7,218.8	4,933.2	31.66%

3. *Breakdown of the Company's assets*

Unit: RMB in millions

Item	2009 Amount	2009 As a percentage of total assets	2008 Amount	2008 As a percentage of total assets	Year-on-year increase/ decrease
Total assets	**68,342.3**	**100%**	50,865.9	100%	34.36%[Note 1]
Trade receivables	**15,319.2**	**22.42%**	9,972.5	19.61%	53.61%[Note 2]
Fixed assets	**4,714.5**	**6.90%**	4,103.1	8.07%	14.90%
Long-term equity investments	**440.3**	**0.64%**	168.4	0.33%	161.46%[Note 3]
Construction in progress	**1,332.7**	**1.95%**	817.1	1.61%	63.10%[Note 4]
Short-term loans	**4,906.5**	**7.18%**	3,882.5	7.63%	26.37%
Inventories	**9,324.8**	**13.64%**	8,978.0	17.65%	3.86%
Investment properties	**—**	**0.00%**	—	0.00%	0.00%
Long-term loans	**2,396.4**	**3.51%**	1,292.5	2.54%	85.41%[Note 5]

Note 1: The balance of fixed assets increased by 34.36%, year-on-year, mainly as a result of the expansion of the Company's operations.

Note 2: The balance of trade receivables increased by 53.61%, year-on-year, mainly as a result of sales growth and the offering of more favourable payment terms to customers.

Note 3: The increase in the balance of long-term equity investments by 161.46%, year-on-year, mainly reflected the increase in the Company's investments in associates.

Note 4: The increase in the balance of long-term equity investments by 63.10%, year-on-year, mainly reflected the increase in expenditure relating to the construction of the staff residence, research and development centre and training centre.

Note 5: The increase in the balance of long-term loans by 85.41%, year-on-year, mainly reflected the increase in loans borrowed to meet medium- to long-term funding requirements.

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

Item	As a percentage of total profit 2009	As a percentage of total profit 2008	Year-on-year change
Operating profit	**62.08%**	55.04%	7.04%
Expenses for the period	**486.61%**	561.96%	(75.35%)[Note 1]
Investment gains	**0.36%**	5.42%	(5.06%)
Non-operating income and expenses, net	**37.92%**	44.96%	(7.04%)

Note 1: The decrease in expenses as a percentage of total profit for the period by 75.35% mainly reflected economies of scale resulting from business expansion.

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Unit: RMB in millions

Item	2009	2008	Year-on-year change
Selling and distribution expenses	**7,044.4**	5,312.5	32.60%[Note 1]
General and administrative expenses	**2,567.9**	2,099.7	22.30%
Finance expenses	**784.7**	1,308.3	(40.02%)[Note 2]
Income tax	**629.1**	350.6	79.44%[Note 3]

Note 1: The increase in selling and distribution expenses by 32.60% was mainly attributable to the expansion of the Company's business scale.

Note 2: The decrease in finance expenses by 40.02% mainly reflected interest expenses and banking fees partially offset by exchange gains arising from exchange rate fluctuations.

Note 3: The increase in income tax by 79.44%, year-on-year, mainly reflected the increase in pre-tax profit as well as the profit of certain subsidiaries.

5. Breakdown of cash flow

Unit: RMB in millions

Item	2009	2008	Year-on-year change
Net cash flow from operating activities	**3,729.3**	3,647.9	2.23%
Net cash flow from investing activities	**(2,301.1)**	(1,987.7)	(15.77%)
Net cash flow from financing activities	**1,287.2**	3,642.7	(64.66%)[Note 1]

Note 1: The decrease in cash flow from financing activities by 64.66%, year-on-year, mainly reflected proceeds from the issue of Bonds cum Warrants during the previous year and the absence of such proceeds for the reporting period.

6. Business operations and results of principal subsidiaries

(1) Business operations of principal subsidiaries:

Name of company	Registered capital	Shareholding percentage (%)	Scope of business	Total assets (RMB in millions)	Net assets (RMB in millions)	Revenue from principal operations (RMB in millions)	Profit from principal operations (RMB in millions)	Net profit (RMB in millions)
Zhongxing Software	RMB50 million	98%	Development, production and sale of telecommunications system drivers, software for service-based businesses and provision of related technical consultancy services	6,026.5	4,433.4	7,886.1	7,727.7	2,338.1
ZTE HK	HK$500 million	100%	Sales of products, purchase of original parts and ancillary equipment; technology development and transfer training and consultation; investment and financing	2,148.9	983.6	5,537.4	825.8	123.6
Shenzhen Zhongxing Telecom Equipment Technology & Service Company, Limited	RMB50 million	100%	Technology development for computer network, software, electronic equipment and communications products, domestic supplies; information consultation	2,313.3	152.7	2,962.8	2,747.4	645.4
ZTE Kangxun	RMB50 million	90%	Production of electronic products and related parts (other than restricted items)	13,174.1	2,508.8	32,874.0	661.0	323.7

There was no single investee company from which the Company derived investment gains accounting for more than 10% of the Company's net profit.

For details of other subsidiaries and major investee companies, please refer to Note IV and Note V.12 Long-term Equity Investments" to the financial report prepared under PRC ASBEs.

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

8. Technological innovations

Proprietary development of new products is and will be a key strategic focus in the Group's development. The Group had been consolidating its research and development platform with increased investments and enhanced parallel development since 2008 and in 2009 the systems concerned were further optimised to strengthen project operation, providing strong assurance for the swift development of the Group's business.

The objective of the Group is to drive technological progress of the industry as a whole and contribute to China's development into a leading telecom power through its own efforts in proprietary innovations. In 2009, the Group received the "Class II National Award for Technological Progress" for three projects: "next–generation wireless technology platform", "application of CDMA-based digital cluster communication technology standards" and "international standards and application of ITU-T multi-media service series." Among these projects, our proprietary intellectual property was embodied in the "next–generation wireless technology platform," which was applied in numerous products of the Company and contributed to significant enhancements in the competitiveness of the Company's wireless products.

Proprietary product innovation remains the most important driver for the Group's growth. To facilitate ongoing progress in product innovation, the Company ensures that the annual investment in technology research and development will be no less than approximately 10% of its sales revenue and has formed a research and development team comprising over 20,000 staff. In 2009, the Group worked actively to support the government's call for cooperation among enterprises, academies and research institutes and took the lead in the formation of the "ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes in Telecommunications" in association with 17 elite colleges and 4 research institutes specializing in telecommunications, with the aim of forging a value chain linking the industry, the academia and the research sector. Through this forum, a number of joint venture projects in the wireless, wireline and services segments were set up during the year, effectively combining academic research with industrial capabilities to shorten the lead-time for product development and improve the Company's core competitiveness as a result.

In 2009, the Group undertook over 20 major technology research projects designated by the government, such as the "next-generation broadband wireless mobile telecom net" and "core electronic components, high-end general chips and base software products." We were also charged with the research, development and industrialization of the National 863 Project, the Electronic Development Foundation and the Guangdong-Hong Kong Foundation.

The Company's drive to promote and improve its environment-friendly solutions is underpinned by an emphasis on the building of "green" networks and the application of environment-friendly energy conservation technologies, with the green concept of "energy conservation and waste reduction" being implemented throughout its entire business process from product design, procurement, production, transportation, application to recycling, ensuring that carriers' networks will operate in full compliance with this initiative for environmental protection.

9. Major suppliers and customers

Purchases by the Group from its largest supplier amounted to RMB3,144 million in 2009, accounting for 9.18% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB7,207 million, accounting for 17.98% of the total purchases of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders of the Company (other than Zhongxingxin) had any interest in any of the five largest suppliers of the Group (the above figures for the Group prepared in accordance with PRC ASBEs were consistent with corresponding figures prepared in accordance with HKFRSs).

Sales by the Group in 2009 to its largest customer amounted to RMB10,239 million, accounting for 16.99% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB28,295 million, accounting for 46.95% of the total sales of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders of the Company had any interest in any of the five largest customers of the Group (the above figures of the Group are consistent under PRC ASBEs and HKFRSs).

10. Investments

(1) Use of issue proceeds during the reporting period.

The Company issued 40 million bonds cum warrants with a value of RMB4 billion ("Bonds cum Warrants") on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with China Development Bank, Shenzhen Branch (account number: 44 301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008.

The Company utilised RMB81,443,500 of the issue proceeds in the reporting year and proceeds from the issue of Bonds Warrants had been fully utilized, with a total utilization of of RMB3,961,143,500 on an accumulative basis. A verification report on the deposit and application in 2008 of proceeds from the issue of bonds cum warrants of the Company has been furnished by 廣東立信大華會計師事務所 (Guangdong Lixin Dahua Certified Public Accountants). An examination opinion has been furnished by Guotai Jun'an Securities Co., Ltd., the sponsor of the Company's bonds cum warrants. For details please refer to the full text of the report "Verification Report on the Deposit and Application in 2009 of proceeds from the issue of bonds cum warrants of ZTE Corporation" simultaneously published with this report.

As at the end of the reporting period, the said issue proceeds of the Company were applied as follows:

Unit: RMB in ten thousands

Gross amount of issue proceeds	396,144.35	Gross amount of issue proceeds utilised during the reporting period	8,144.35
Gross amount of issue proceeds for which use has been changed	0	Gross amount of issue proceeds utilised to-date	396,144.35
Proportion of gross amount of issue proceeds for which use has been changed	0		

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Projects committed	Any change in project (including projects with changes)	Total amount of issue proceeds committed to investment	Investment amount planned as at the end of the period (1)	Amount invested during the year	Accumulated investment as at the end of the period (2)	Difference between accumulated investment and investment amount planned as at the end of the period (2)-(1)	Progress of investment as at the end of the period (2)/(1)	Period for return of capital (year)	Earnings	Anticipated benefits achieved	Whether there has been significant change to project feasibility
The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	No	18,782	N/A	–	18,782	N/A	N/A	3.03	See below	Yes	No
The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	No	11,776	N/A	–	11,776	N/A	N/A	4.12	See below	Yes	No
Industrialisation of TD upgrade technology	No	67,326	N/A	26,114.49	67,326	N/A	N/A	5.70	See below	Yes	No
Construction of innovative handset platform	No	174,915	N/A	38,032.91	174,915	N/A	N/A	5.29	See below	Yes	No
Construction of next generation broadband wireless mobile SDR platform	No	53,358	N/A	15,851.03	53,358	N/A	N/A	5.93	See below	Yes	No
Industrialisation of next generation IP-based amalgamation network for full multi-media services	No	39,727	N/A	–	39,727	N/A	N/A	5.49	See below	Yes	No
Research, development and production of integrated network management system	No	56,635	N/A	26,147.29	56,635	N/A	N/A	5.31	See below	Yes	No
Industrialisation of xPON optical access	No	49,371	N/A	16,641.98	49,371	N/A	N/A	5.42	See below	Yes	No
Industrialisation of next generation optical network transmission equipment	No	64,108	N/A	24,168.53	64,108	N/A	N/A	5.05	See below	Yes	No
Construction of ICT integrated business platform	No	99,647	N/A	44,730.41	99,647	N/A	N/A	3.94	See below	Yes	No
Industrialisation of RFID systems integration	No	19,394	N/A	9,522.11	19,394	N/A	N/A	5.02	See below	Yes	No
Total	–	655,039	–	201,208.75	655,039	–	–	–	–	–	–

Non-fulfillment of scheduled progress or anticipate earnings and reasons	The scheduled progress of projects utilising proceeds from the issue of Bonds cum Warrants of the Company was fulfilled.
Significant change to project feasibility	No
Change to implementation location of investment projects using issue proceeds	No
Change in the manner in which investment projects using issue proceeds were implemented	No
Initial investments and fund replacements in investment projects using issue proceeds	1. In order to expedite the construction of issue proceeds investment projects, the Company had used internal funds for initial investments in issue proceed investment projects prior to the receipt of the issue proceeds. As at 31 December 2007, the actual amount invested using internal funds was RMB1,576,936,600. In order to increase capital efficiency and to reduce financial expenses, the Company subsequently replaced the initially invested internal funds with issue proceeds. For details of the replacement, please refer to the "Announcement on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" of the Company dated 14 March 2008. 2. As at 31 December 2009, the amount invested by the Company in projects utilizing issue proceeds had met the agreed investment amount set out in issue prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company's internal resources. Such portion would be replaced if the warrants are exercised upon maturity. The exercise period for the "中興ZXC1" Warrants expired on 12 February 2010. A total of 23,348,590 "中興ZXC1" Warrants had been exercised, generating total issue proceeds of RMB912,464,758.64. In order to enhance the efficiency of fund application and reduce finance costs, the Company replaced internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants. For details, please refer to the "Announcement of the Company on the replacement of internal funds that had previously been invested in the issue proceed projects with proceeds from the exercise of the warrants" dated 25 March 2010.
Application of idle funds as additional working capital	There was no application of idle funds as additional working capital.
Amount of issue proceeds in surplus of requirements for project implementation and reasons	There was no Company issue proceeds in surplus of requirements for project implementation.
Use and status of unutilised issue proceeds	Proceeds from the issue of Bonds cum Warrants of the Company had been fully utilised.
Problems and other information in the use of issue proceeds and related disclosure	No

Note 1: There was no adjustment to the total amount of issue proceeds committed to investment.

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The progress of the projects and the earnings generated are discussed as follows:

The building-up of the R&D and production environment and scale production capacity of TD-SCDMA HSDPA system equipment

With the completion of ancillary facilities for production environments such as the assembly environment, adjustment and testing environment and high-temperature aging environment, the project was ready for large-scale production and commercial supply. TD system equipment supplied under the Phase I, Phase II and Phase III tenders of China Mobile reported stable application in operating networks, while TD system equipment required by the Phase IV tenders of China Mobile was under production.

The building-up of the development environment and scale production capacity of TD-SCDMA terminal products

The building of the development environment and large-scale production capacity for TD-SCDMA terminals has been completed, pending project inspection and acceptance by the National Development and Reform Commission. With such completion, ZTE's delivery of TD-SCDMA terminal products, such as handsets, data cards, modules and wireless terminals, increased significantly both in terms of volume and value in 2009, and were firmly established in a forefront position in terms of market share. The project has contributed strongly in terms of social as well as economic benefits.

Industrialisation of TD upgrade technology

In line with increased government efforts to advance TD-LTE, ZTE was also gaining rapid progress in the industrialisation of TD-LTE as it stepped up with LTE research and development, passing the indoor and outdoor stages of the PoC test organised by the MIIT TD-LTE Task Force in association with China Mobile in April and August, respectively, in 2009. In September 2009, we were appointed as one of the contract-suppliers of TD-LTE demo networks at the Shanghai World Expo after completing relevant tests at the invitation of China Mobile. This was followed by a demo of the first TD-LTE service between different supplier systems and terminals at the Telecom World 2009 held in Geneva in October, in a joint effort by ZTE and Hong Kong-based ASTRI. In November, ZTE's system realised the theoretical download speed of 130Mbps at the TD-LTE demo for Guangdong Mobile. In December 2009, ZTE became one of the first manufacturers to commence technical tests (outdoor testing) after the first batch of its TD-LTE passed the technical tests (laboratory testing) organised by the MIIT TD-LTE Task Force. The first stage of outdoor testing was completed in January 2010.

Construction of innovative handset platform

Handset TVs: The handset service was put to large-scale commercial application following completion of research and development and coordinated on-site fine-tuning for a majority of the world's markets and TV standards. The project mainly comprised the research and development, coordinated on-site fine-tuning and large-scale commercial application of proprietary TV data cards for international markets and the research and development and large-scale commercial application of TD TVs for the domestic market. Next we will be looking at the integration and system optimisation of various service standards, markets and product requirements.

Smart handsets: The EVDO smart handsets operating on the Qualcomm platform were launched in the overseas market, while at home they were supplied to China Telecom. The year under review also saw our global launch of Windows Mobile 6.5 smart handsets in association with Microsoft. Meanwhile, we have joined the Google OHA Alliance and overseas delivery of the Android handset has been scheduled for the first quarter.

GoTa handsets: GoTa terminals G880, G660, G79 and S580 were commercially launched during the year. In addition, a new model G380 has been developed in 2010 to further enrich the product line of GoTa terminals.

IMS customer-end software platform: The commercial version of the IMS customer-end software was launched on a number of TD-SCDMA and EVDO handsets, featuring IMS-based software such as real-time communication, video-phone and video-conference.

Construction of next-generation broadband wireless mobile SDR platform

Our SDR-based wireless products delivered solid performance in the market, as we captured the largest overall market share for 3G in China during the reporting period, Internationally, the Company's CDMA products continued to rank top in market shares, while our G/U dual-mode products were ascending fast in ranking. As new products in the market, our WIMAX/LTE products enjoyed a leading edge at the outset. At present, we are looking to extend the scope of our SDR products and add more depth to their functional aspects. Study is currently underway on multi-mode SDR products featuring closer coupling and more extensive coverage, with preliminary research and development completed on multi-modes with base-band sharing and RF sharing features.

Industrialisation of next generation IP-based amalgamation network for full multi-media services

The next-generation IP-based IMS amalgamation network of ZTE was developed in close tandem with carriers' shift of focus to all-rounded service offerings, with the aime of providing comprehensive support to different applications in the context of all-rounded services. ICT amalgamated solutions were provided to corporate customers to meet their needs to reduce operating costs, enhance administrative efficiency, improve business process flows and increase revenue. For home users, the amalgamated video solution featuring 3-way communications, IPTV and video monitoring promised to satisfy household requirements for entertainment, communication and safety. On a personal note, a rich variety of exclusive and personalised features were provided in multi-media services such as video phones, multi-media colour ringtones, colour vibration alerts and video-sharing. Fast service deployment and provision was also supported. These cutting-edge solutions have lent powerful support for ZTE's solid results, such as in the case of China Mobile, who became the first carrier in the industry to offer an IMS-based HD video conference system with the assistance of ZTE, giving the mobile telecommunications carrier a significant edge in expanding its customer bases in the government and corporate sectors for its all-rounded service. On the back of its technical strengths, ZTE secured a lion's share in China Telecom's IMS trial projects, while in the overseas market, ZTE was picked as IMS partner by mainstream carriers in the high-end market of Europe and America, such as Telenor.

Research, development and production of integrated network management system

As at the end of 2009, our integrated network management system completed equipment management over 13 types of specialised networks developed by ZTE, as well as systems integration with centralised security, centralised storage, malfunctioning electronic workflow processing, smart resource management and GIS mapping. In addition, further sophisticated functions were developed in 2009, such as end-to-end performance monitoring and trend analysis, and warning relevances/root problem analysis. In 2009, commercial applications of our products under research and development were launched in Ethiopia, India and Hong Kong, while a high-end market project in Canada was acquired.

Industrialisation of xPON optical access

The domestic xPON market grew significantly during 2009 as China Telecom and China Unicom continued to expand their EPON networks while China Mobile was also starting large-scale E/GPON construcion. ZTE consolidated its position as the leading brand name for xPON as it continued to distinguished itself from competition in the domestic xPON market on the back of its solid research and development capabilities and comprehensive range of sophisticated products. With the global debut and commerical application of 10GEPON featuring smooth upgrades of FTTx products, ZTE has been firmly established as the global forerunner in next-generation PON technologies.

Our EPON and GPON products continued to penetrate high-end markets such as Europe, North America and the Asia Pacific leveraging its strengths in research and development and the range and sophistication of its products, following successful applications in numerous countries and regions, including Italy, Indonesia, Russia, Ukraine, Lithuania, Argentina, Brazil, Chile, Holland, Algeria, Hong Kong, Saudi Arabia and Ethiopia, etc.

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Industrialisation of next generation optical network transmission equipment

Branding itself as the "carrier of dreams and values," this project strives to meet the needs of carriers in network upgrades by providing all-rounded transmission solutions such as MSTP/PTN, WDM/OTN and NMS, with special emphasis on matching the business requirements of 3G Backhaul carriage under the IP trend. In 2009, the project reported sound progress with the launch of the ZXCTN series of PTN products, Mx20 series of wave division products, as well as the large-capacity ASON and ZXONE 5800, which were widely recognized in the global market. At home, ZTE received three major awards at the "Optical Communications and Carrying Network Construction Forum 2009": the "Optical Communications Industry Driver Award 2009," the "Best Optical Communications Transmission System Supplier Award 2009" and the "Most Competitive Supplier of PTN Solution 2009." Internationally, our IxWDM solution was honoured with the (BBWF Europe) InfoVision Award 2009.

As the ZTE project of "Industrialisation of next generation optical network transmission equipment" continues to advance, the Company's market position in the optical network industry will be further consolidated. According to the report on market shares in 3Q09 issued by OVUM, a leading consultant, ZTE outpaced competitors in the optical network market during the past year, leapfrogging from 11th to 4th in global market share ranking to become a leading player. In line with project progress, further new products will be industrialised and marketed in 2010, which are expected to be well received by the market.

Construction of ICT integrated business platform

The primary purpose of the ICT integrated business platform project is to enhance the core competitiveness of ZTE's business software products (especially the VAS products) by building an ICT business platform that addresses the general trend of ICT integration in the communications industry. The incorporation of success features of the Internet into business network planning has become a dominant trend among telecommunications carriers since 2009, in tandem with the ongoing fusion and cross-penetration between the telecommunications sector and the Internet. In view of this development, ZTE's ICT integrated business platform was built upon the core concept of cluster service network (CSN), with the aim of helping carriers to provide cluster services based on unified and open standards in a fast and economical manner, as well as to deploy resources on a consolidated basis. The competitiveness of various service software products, such as service provision platforms, service management platforms, service access switches, software shops and support platforms for the Internet of Things, has been effectively enhanced as a result. On the solid foundation provided by this project, ZTE's SIDE (service integration and deployment environment) project proposal was admitted by ITU-T in a further boost to the standing of PRC companies in the international communications industry.

Industrialisation of RFID systems integration

After three years of solid work in product research development as well as marketing, our RFID products and solutions were growing towards maturity and widely recognised in the market, while initial capabilities in RFID systems integration were also formed.

In 2009, the Group's RFID 433MHz product achieved breakthrough in highway multi-path identification and became the established prime domestic brand name in this area with overwhelming market shares. The performance of our commercially launched ultra-high frequency products was further improved, ranking among the top band and outperforming domestic peers in various indicators in product tests. Performance consistency of the commercially launched label products was also improved with the full process from label design to commercial production in operation. Marketing options were broadened with our strengths in proprietary research, development and production, as well as OEM and ODM capabilities. New versions of software standard network units showing improved stability were launched in the latter half of 2009 after incorporating features to address new market requirements.

The Company also made significant progress in industry solutions as it concluded the first deal in electronic car plate in China's transportation industry, paving the way for further development in this area and striking another note in terms of brand building. Currently we are involved in the tenders for multi-provincial electronic car plates, ETC free flow, multi-path identification and anti-fraud inspection for national-class items. We expect our status as the prime brand in China in this sector to be further reinforced in 2010, as we strive to grow into a large-scale supplier of RFID integrated systems.

(2) Significant investments using funds other than issue proceeds.

The Group had no significant investments using funds other than issue proceeds during the year.

11. There were no changes in the accounting policies, accounting estimates, auditing methods or adjustments of significant accounting errors of the Group for the year.

12. Items relating to fair value measurement and the internal control systems for these items

(1) Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Accumulated fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	—	—	—	—	—
Including: derivative financial assets	—	—	—	—	—
2. Available-for-sale financial assets	—	—	—	—	—
Sub-total of financial assets	—	—	—	—	—
Financial liabilities Note 1	12,560	(12,560)	—	—	—
Investment properties	—	—	—	—	—
Productive living assets	—	—	—	—	—
Others	—	—	—	—	—
Total	**12,560**	**(12,560)**	—	—	**—**

Note 1: Financial liabilities comprised derivative financial liabilities.

(2) Fair value changes in items measured at fair value and their impact on the Company's profit

Financial instruments of the Company are stated at historical costs, except for a small number of derivative financial instruments which are measured at fair value based on market prices. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in RMB-USD forward exchange rates.

(3) Internal control systems relating to fair value measurement

The Company has established a fair value measurement internal control system to be operated through collaboration of various departments under the leadership of the Chief Financial Officer. The Fair Value Measurement Internal Control Measures (《公允價值計量的內部控制辦法》) has been formulated as a complement to the "ZTE Accounting Policies" (《中興通訊會計政策》) and the "ZTE Internal Control System" (《中興通訊內部控制制度》) to regulate the application and disclosure of fair value measurements.

Report of the Board of Directors

13. Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Accumulated fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	—	—	—	—	—
Including: derivative financial assets	—	—	—	—	—
2. Loans and receivables	7,570,941	—	—	(203,103)	16,929,417
3. Available-for-sale financial assets	—	—	—	—	7,112
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	7,570,941	—	—	(203,103)	16,936,529
Financial liabilities	12,560	12,560	—	—	5,657,676

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

15. The independent opinion of the Independent Directors on the use of funds by connected parties of the Company and the Company's accumulated and current guarantees for 2009 was as follows:

(1) The transfer of funds between the Company and the controlling shareholder and other connected parties represent sales and purchases of goods in the ordinary course of business. Such transactions have been conducted based on fair market prices and were not adverse to the Company's interests. Neither the controlling shareholder of the Company nor its subsidiaries nor other connected parties have appropriated the Company's funds.

As required by China Securities Regulatory Commission, the Independent Directors of the Company have reviewed the Company's transactions against the "Notice regarding Certain Issues on the Regulation of Financial Transactions Between Listed Companies and Connected Parties and Third-party Guarantees made by Listed Companies" (Zheng Jian Fa (2003) No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.

(2) As at 31 December 2009, guarantees provided by the Company amounted to approximately RMB640,989,600 on an accumulative basis, accounting for 3.81% of the Company's audited net assets for 2009. The Company did not provide any external guarantees (excluding guarantees on behalf of subsidiaries) during the reporting period of 2009. As at the end of the reporting period of 2009, the balance of external guarantees (excluding guarantees on behalf of subsidiaries) amounted to approximately RMB70,484,600. Guarantees provided on behalf of subsidiaries during the reporting period amounted to approximately RMB513,114,000. The balance of external guarantees provided on behalf of subsidiaries as at the end of the reporting period of 2009 amounted to approximately RMB932,403,000. The information on guarantees disclosed in the 2009 Annual Report of the Company was true and accurate, and the Company had not been engaged in any guarantees or joint guarantees in breach of relevant regulations.

(3) As required by China Securities Regulatory Commission, the Independent Directors of the Company have reviewed the Company's transactions against the "Notice regarding the Regulation of Third-party Guarantees made by Listed Companies' (Zheng Jian Fa [2005] No. 120) and the "Notice regarding Certain Issues on the Regulation of Financial Transactions Between Listed Companies and Connected Parties and Third-party Guarantees made by Listed Companies" (Zheng Jian Fa (2003) No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the Notice and have not found any matter which is in breach of the Notice. In view of the above, we are of the opinion that the accumulated and current external guarantees of the Company are in compliance with the requirements of relevant documents issued by the CSRC, and there has been no breach of the guarantee or infringement on the interests of minority shareholders.

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

(1) During 2009, the Board of Directors of the Company convened ten meetings, the details of which are as follows:

Session	Date of meeting	Mode of meeting	Date of announcing resolutions of meeting	Newspaper for publication of announcements
22nd meeting of the Fourth Session	19 March 2009	On-site meeting	20 March 2009	China Securities Journal,
23rd meeting of the Fourth Session	23 April 2009	Video conference	24 April 2009	Securities Times, Shanghai
24th meeting of the Fourth Session	11 May 2009	Video conference	12 May 2009	Securities News
25th meeting of the Fourth Session	5 June 2009	Voting in written communication	6 June 2009	
26th meeting of the Fourth Session	6 July 2009	Video conference	7 July 2009	
27th meeting of the Fourth Session	22 July 2009	Voting in written communication	23 July 2009	
28th meeting of the Fourth Session	19 August 2009	On-site meeting	20 August 2009	
29th meeting of the Fourth Session	25 September 2009	Voting in written communication	Note 1	
30th meeting of the Fourth Session	27 October 2009	Video conference	28 October 2009	
31st meeting of the Fourth Session	12 November 2009	Voting in written communication	13 November 2009	

Note 1: At the 29th meeting of the Fourth Session of the Board of Directors, the issue of additional H shares of the Company pursuant to the general mandate was considered and approved. For details of the Board resolution, please refer to the Announcement on the Placing of New H Shares published by the Company on 14 January 2010.

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

1. Pursuant to the relevant resolution passed at the 2008 annual general meeting, the Board of Directors of the Company implemented profit distribution and capitalisation from capital reserves for 2008: namely the creation of 3 shares for every 10 shares based on the Company's total share capital of 1,343,330,310 shares as at 31 December 2008 and the payment of RMB3 for every 10 shares (before tax) in cash or an aggregate of RMB402,999,000. The record date for dividend payment for A shares was 4 June 2009. The ex-dividend date for A shares was 5 June 2009. Bonus A shares not subject to lock-up was listed on 5 June 2009. The payment date for cash bonus dividend for A shares was 5 June 2009.

2. At the 2008 annual general meeting and the first extraordinary general meeting of 2009 of the Company, held on 19 May 2009 and 30 June 2009, respectively, the Board of Directors was granted an unconditional general mandate to separately or concurrently allot, issue and deal with additional domestic shares and overseas-listed foreign shares ("H Shares") of the Company (including securities convertible into domestic shares and/or H Shares of the Company) and to make or grant offers, agreements or options in respect of the above during the relevant period. Pursuant to the general mandate granted by the 2008 annual general meeting and the first extraordinary general meeting of 2009, the Board of Directors approved the issue of H shares to designated investors and diligently implemented the placing and listing of new H shares, which was completed on 21 January 2010. For details, please refer to the Announcement of the Company on the Completion of the Placing of New H Shares published in China Securities Journal, Securities Times and Shanghai Securities News on 22 January 2010.

Report of the Board of Directors

3. Pursuant to relevant resolutions of the first extraordinary general meeting of 2007, the Board of Directors implemented the Phase I Share Incentive Scheme of the Company. At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, the total Subject Share quota granted to Scheme Participants under the First Award and the Second Award of the Phase I Share Incentive Scheme of the Company was ratified. The first unlocking of the Subject Shares under the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009. For details, please refer to "(V) Progress of the Phase I Share Incentive Scheme of the Company during the Reporting Period" in "Material Matters" in this report.

(3) Summary report of the work of the Audit Committee

During the reporting period, the Audit Committee diligently performed its duties in accordance with the "Detailed Rules for the Work of the Audit Committee" (《審計委員會工作細則》) and the "Guidelines for Work of the Audit Committee relating to the Annual Report" (《審計委員會年報工作規程》) and performed important duties such as supervision and inspection of the building and improvement of the Company's internal control system and vetting of the annual financial auditing.

1. For details of the work of the Audit Committee in 2009, please refer to the section headed "II. Board of Directors" in "PART II: CORPORATE GOVERNANCE REPORT" of "CORPORATE GOVERNANCE STRUCTURE".

2. Issue of three review opinions on the 2009 financial report of the Company

Members of the Audit Committee boast rich expertise and experience in financial operations. During the reporting period, the Audit Committee issued three review opinions on the annual financial and accounting report of the Company in accordance with relevant requirements of the CSRC. The Audit Committee first examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2008; key financial indicators calculated on the basis of data from the 2009 management accounts were consistent with preliminary estimates made by the Committee members based on known facts and comparison with financial indicators of 2008. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Next, following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2009 annual report was in compliance with the new accounting standards for business enterprises and their practice notes.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2009. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2009 and approved the submission of the report for the review of the Board of Directors.

3. Supervision of the audit work of the accountants' firm

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year by November 2009 and submitted such timetable to Shenzhen CSRC in early January 2010 in accordance with relevant requirements on annual report auditing announced by Shenzhen CSRC. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants' firms, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants' firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment items to inform themselves of the progress of audit and concerns of the accountants. Such

concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants' firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

4. Summary Report on the 2009 audit work performed by the accountants' firms

The PRC and Hong Kong auditors of the Company performed auditing on the Company's annual report during the period from October 2009 to March 2010. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the audit plan, and issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for its review. The PRC and Hong Kong auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence after nearly 4 months of auditing work. The A-share and H-share audit reports with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and prudence in the course of audit and completed the audit of the Company's 2009 financial report in a satisfactory manner.

5. Recommendations on the appointment of PRC and Hong Kong auditors

Based on cooperation with Ernst & Young and Ernst & Young Hua Ming over the years, the Audit Committee was of the view that the PRC and Hong Kong auditors of the Company are major accountants' firms with high-calibre professional teams, full qualifications for the practice, rich practical experience and stringent internal management As such, the Audit Committee recommends the Board of Directors to re-appoint Ernst & Young Hua Ming as PRC auditors and Ernst & Young as Hong Kong auditors of the Company for 2010.

6. Supervision of measures to improve the Company's internal control system

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee actively supports the Audit Department to perform its audit functions in accordance with the law and fulfill the supervisory role of the audit function. During the reporting period, the Audit Committee convened dedicated meetings to receive reports of the Audit Department and reports on the building, improvement and execution of the Company's internal control system. On this basis, suggestions for improvement were made in respect of the work of the Audit Department and the overall internal control of the Company.

(4) Summary report of the Remuneration and Evaluation Committee

1. For details of the work of the Remuneration and Evaluation Committee in 2009, please refer to the section headed "II. Board of Directors" in "PART II: CORPORATE GOVERNANCE REPORT" of "CORPORATE GOVERNANCE STRUCTURE".

2. Examination of disclosed remuneration of Directors, Supervisors and senior management of the Company

Report of the Board of Directors

The Remuneration and Evaluation Committee has conducted detailed examination of disclosed remuneration of Directors, Supervisors and senior management of the Company, and is of the view that the procedure for determining the remuneration of Directors, Supervisors and senior management of the Company is in compliance with relevant provisions, and that the remuneration of Directors, Supervisors and senior management of the Company disclosed in the 2009 annual report of the Company is true and accurate.

17. Profit distribution or capitalisation from capital reserve

(1) Proposal for profit distribution and capitalisation from capital reserve for 2009

Net profit of the Company for the year 2009 calculated in accordance with PRC ASBEs amounted to RMB733,826,000. Together with undistributed profit of RMB1,992,735,000 carried forward at the beginning of the year, profit available for distribution amounted to RMB2,726,561,000. After deducting statutory surplus reserves of RMB73,383,000 profit available for distribution to shareholders amounted to RMB2,653,178,000. Profit of the Company for the year 2009 calculated in accordance with HKFRSs amounted to RMB721,736,000. Together with undistributed profit of RMB1,996,413,000 carried forward at the beginning of the year, profit available for distribution amounted to RMB2,718,149,000. After deducting statutory surplus reserves of RMB73,383,000, profit available for distribution to shareholders amounted to RMB2,644,766,000.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB2,644,766,000. The Board of Directors of the Company has recommended as follows:

Proposed profit distribution for 2009: A cash dividend of RMB3 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company as at 8 April 2010 less the number of Subject Shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled during this period in accordance with the implementation of the Phase I Share Incentive Scheme (the "Share Incentive Scheme") as at the A share record date for the purpose of the 2009 profit distribution (the "Record Date"). As at 8 April 2010, 69,737,523 registered Subject Shares under the Share Incentive Scheme remained in lock-up. In accordance with relevant provisions of the Share Incentive Scheme, restricted shares remaining in lock-up shall not be entitled to the cash dividend. The number of shares entitled to the cash dividend under the 2009 profit distribution proposal will be 1,841,416,933 shares in case the second unlocking of registered Subject Shares granted under the first award of the Share Incentive Scheme (the "Second Unlocking") is not completed by the Record Date, on which basis the 2009 profit distribution plan will be implemented. In case the second unlocking is completed by the Record Date, the maximum of shares to be unlocked in accordance with the Share Incentive Scheme will be 35% of the Subject Shares under the first award, namely 26,797,252 shares, which will be entitled to the cash dividend.

Proposed capitalisation from capital reserve for 2009: The issue of 5 bonus shares for every 10 shares by way of capitalization of capital reserves. In case the aforesaid second unlocking is not completed by the Record Date, the capitalization will be based on the total share capital of the Company of 1,911,154,456 shares as at 8 April 2010 and the share capital will be increased by a total of 955,577,228 shares. In case the aforesaid second unlocking is completed by the Record Date, the capitalization will be based on the total share capital of the Company as at 8 April 2010 less the number of Subject Shares which are not unlocked owing to the failure of Scheme Participants to meet the performance appraisal requirements or their resignations and which may be required to be repurchased and cancelled prior to the Record Date for the purpose of the 2009 profit distribution.

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

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

The Company's profit distribution and capitalisation from capital reserves for 2008, was implemented on 5 June 2009. For further details, please refer to the "Announcement on Profit Distribution and Capitalisation from Capital Reserves for 2008 of ZTE Corporation" dated 27 May 2009 and published in China Securities Journal, Securities Times and Shanghai Securities News.

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

Year	Cash distribution amount (before tax) (RMB ten thousands)	Net profit in the consolidated statements attributable to shareholders of the listed company (RMB ten thousands)	Cash distribution as a percentage of net profit in the consolidated statements attributable to shareholders of the listed company	Net profit of the year available for distribution (RMB ten thousands)
2008	40,299.9	166,019.9	24.27%	239,573.4
2007	23,988.0	125,215.8	19.16%	165,775.2
2006	14,392.8	76,697.2	18.77%	178,651.2
Accumulated cash distribution in the past three years as a percentage of average annual profit available for distribution (%)			40.42	

Note: Profit available for distribution in 2006 amounted to RMB3,766,426,000 under PRC ASBEs and RMB1,786,512,000 under HKFRSs. In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore profit available for distribution in 2006 was RMB1,786,512,000.

18. Designated newspapers for information disclosure in China

China Securities Journal, Securities Times and Shanghai Securities News have been designated as newspapers for information disclosure by the Company in China.

(III) Business outlook and risk exposures for 2010

1. Business outlook for 2010

2010 will be a year of opportunities as well as challenges, as the demand for telecommunication services is expected to grow in tandem with the general economic recovery, while we should continue to expect changing scenes in the competition among global suppliers of telecommunications equipment. In the domestic market, the Group's business should be well supported as carriers continue to invest in 3G networks, optical communications products and terminals. Elsewhere, the telecommunications industry is expected to embrace stable growth amid global economic recovery, with 3G network construction driving investment growth especially in the Asia Pacific. Our efforts to grow partnerships with high-end carriers in Europe and America over the past years are expected to pay off as businesses with these companies materialize, and these regions are expected to form a new growth spot for the Company.

In 2010, the Group will focus on improving its capabilities in integrate solutions and strive to constantly improve the quality of networks provided to customers by enhancing its competition strategy, product planning, product delivery and market behaviour, etc. Meanwhile, we will further increase our efficiency and pursue internationalization in greater depth, laying solid foundations for our growth into a top-rate world-class enterprise as we take advantage of the opportunities at hand.

Report of the Board of Directors

2. Risk exposure

(1) Interest rate risk

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

(2) Foreign exchange risk

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. The impact of RMB exchange rate movements is a subject of exchange rate management. The Group adopted an open-ended principle in exchange rate management, with flexible application of a combination of approaches, such as the business planning method, financial management method and financial instrument method. The Group endeavoured to include terms relating to exchange risk aversion or sharing when entering into purchase and sales contracts and sought to enhance its internal management standards by actively managing its foreign exchange position and matching currencies and amounts received or incurred. Where matching was not practicable, derivative products such as foreign exchange forward contracts were employed to lock up exchange rates in varying proportions based on the maturity profile of the outstanding foreign exchange positions, so as to minimise the impact of exchange rate fluctuations on the principal business of the Group. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has formulated a foreign exchange risk management policy that takes into account the actual conditions of the Company's operations and international standards in risk management with ongoing improvements and has gained considerable experience in the conduct of exchange rate risk management through the use of derivative financial instruments in foreign exchange.

(3) Credit risk

The Group encounters differing customer groups with the swift expansion of its one-stop communications solution services, and its business will be affected by the varied credit profiles of these customers.

(4) Country risk

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

(IV) Other Matters in the Report of the Directors

1. Fixed assets

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

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2009 are set out in note 31 to the financial statements prepared in accordance with HKFRSs.

3. Reserves

Details of the reserves and changes in the reserves of the Company and the Group for the year are set out in note 39 to the financial statements prepared in accordance with HKFRSs.

4. Pre-emptive rights

There is no provision under the Company Law of the People's Republic of China or the Articles of Association regarding preemptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

5. Purchase, sale or redemption of shares

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

6. Share capital

Details of the share capital of the Company during the year, together with the changes in the share capital and the reasons therefor, are set out in note 37 to the financial statements prepared in accordance with HKFRSs and on page 24 in this annual report.

7. Establishment and Improvement of the External Information User Management System

To stringently implement management requirements for the submission of information to external parties and further strengthen the management and disclosure of information submission to external parties, the "External Information User Management System" was formulated in accordance with the Company Law, the Securities Law, the Articles of Association and the System for the Management of Holders of Insider Information, and was considered and approved at the second meeting of the Fifth Session of the Board of Directors held on 8 April 2010. The system contains specific provisions on the preparation, review and disclosure period for regular reports and reports on material events, as well as the submission and use of external information.

Management Discussion and Analysis

The financial data below are extracted from the Group's audited financial statements prepared in accordance with HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young and the accompanying notes as set out in this annual report.

Unit: RMB in millions

Comprehensive Income	**2009**	2008
Operating revenue:		
Carriers' networks	**39,982.3**	28,963.8
Terminals	**13,071.5**	9,692.6
Telecommunication software systems, services and other products	**7,218.8**	5,637.0
Total revenue	**60,272.6**	44,293.4
Cost of sales	**(41,667.8)**	(29,911.5)
Gross profit	**18,604.8**	14,381.9
Other income and gains	**1,723.5**	1,295.7
Research and development costs	**(5,781.6)**	(3,994.1)
Selling and distribution costs	**(7,157.8)**	(5,401.0)
Administrative expenses	**(2,735.2)**	(2,190.0)
Other expenses	**(603.2)**	(1,159.7)
Profit from operating activities	**4,050.5**	2,932.8
Finance costs	**(751.7)**	(690.2)
Share of profits and losses of associates	**26.0**	19.9
Profit before tax	**3,324.8**	2,262.5
Tax	**(629.1)**	(350.6)
Profit for the year	**2,695.7**	1,911.9
Attributable to:		
Minority interests	**(237.6)**	(251.7)
Attributable to:		
Shareholders of parent company	**2,458.1**	1,660.2
Other comprehensive income	**8.6**	(181.5)
Comprehensive income	**2,704.3**	1,730.4
Dividend	**552.4**	403.0
Earnings per share — Basic	**RMB1.40**	RMB0.95
— Diluted	**RMB1.35**	RMB0.93

REVENUE ANALYSED BY PRODUCT AND GEOGRAPHIC REGION

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

Unit: RMB in millions

Product segment	**2009**		2008	
	Revenue	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carrier's networks	**39,982.3**	**66.3%**	28,963.8	65.4%
Terminal	**13,071.5**	**21.7%**	9,692.6	21.9%
Telecommunication software systems, services and other products	**7,218.8**	**12.0%**	5,637.0	12.7%
Total	**60,272.6**	**100.0%**	44,293.4	100.0%

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

Unit: RMB in millions

Region	**2009**		2008	
	Revenue	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**30,404.3**	**50.4%**	17,466.4	39.4%
Asia (excluding the PRC)	**13,198.6**	**21.9%**	10,432.9	23.6%
Africa	**6,860.6**	**11.4%**	9,311.1	21.0%
Other regions	**9,809.1**	**16.3%**	7,083.0	16.0%
Total	**60,272.6**	**100.0%**	44,293.4	100.0%

The Group reported RMB60,272.6 million in operating revenue for 2009, a 36.1% growth as compared to last year. Our domestic business sustained stable growth, with operating revenue growing 74.1% to RMB30,404.3 million. Analysed by product, revenue growth in varying degrees was reported in all product segments, namely carriers' networks, terminals and telecommunications software systems, services and other products, combining into substantial growth for the Group's total operating revenue for 2009.

The growth in operating revenue from the Group's carriers' networks segment was attributable mainly to the growth in domestic sales, CDMA, TD-SCDMA and WCDMA system equipment accounting for significant contributions.

The increase in operating revenue from the Group's terminal product segment was driven mainly by sales growth for CDMA terminals in the domestic market and for 3G terminals in both the domestic and the European markets.

The increase in operating revenue from the Group's telecommunications software systems, services and other products was mainly driven by growth in service income in the domestic market and sales of fixed terminals in both the domestic market and elsewhere in Asia.

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

Product segment	2009		2008	
	Cost of sales	**As a percentage of segment revenue**	Cost of sales	As a percentage of segment revenue
Carrier's networks	**26,725.2**	**66.8%**	18,589.2	64.2%
Terminal	**9,770.9**	**74.7%**	7,394.1	76.3%
Telecommunication software systems, services and other products	**5,171.7**	**71.6%**	3,928.2	69.7%
Total	**41,667.8**	**69.1%**	29,911.5	67.5%

Unit: RMB in millions

Product segment	2009		2008	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
Carrier's networks	**13,257.1**	**33.2%**	10,374.6	35.8%
Terminal	**3,300.6**	**25.3%**	2,298.5	23.7%
Telecommunication software systems, services and other products	**2,047.1**	**28.4%**	1,708.8	30.3%
Total	**18,604.8**	**30.9%**	14,381.9	32.5%

Cost of sales of the Group for 2009 increased 39.3% as compared to last year to RMB41,667.8 million. The Group's overall gross profit margin of 30.9% was 1.6 percentage points lower as compared to last year, reflecting mainly the decline in the gross profit margin of carriers' networks.

Cost of sales for the Group's carriers' networks amounted to RMB26,725.2 million, a 43.8% increase as compared to last year. The gross profit margin for carriers' networks was 33.2% versus 35.8% for last year, reflecting lower gross profit margins for GSM system equipment and CDMA system equipment.

Cost of sales for the Group's terminal products amounted to RMB9,770.9 million, increasing by 32.1% as compared to last year. Gross profit margin for the Group's terminal segment was 25.3%, versus 23.7% for last year. The higher gross profit margin for terminal was attributable mainly to the substantial increase in the weighting of 3G terminals (including TD and WCDMA) as a percentage of the overall sales of the terminal segment.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB5,171.7 million, increasing by 31.7% compared to last year. The relevant gross profit margin was lower at 28.4%, compared to 30.3% for last year, reflecting primarily the decline in the gross profit margin of fixed terminal products.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2009 amounted to RMB1,723.5 million, representing a 33.0% growth compared to RMB1,295.7 million for 2008. The increase was attributable mainly to exchange gains and the increase in value-added tax rebates for software products in 2009.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2009 increased by 44.8% to RMB5,781.6 million from RMB3,994.1 million for 2008, and grew slightly from 9.0% in 2008 to 9.6% as a percentage of operating revenue.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs for 2009 increased by 32.5% to RMB7,157.8 million from RMB5,401.0 million for 2008, but decreased from 12.2% to 11.9% as a percentage of operating revenue. The decrease of selling and distribution costs as a percentage of operating revenue despite the increase in total amount mainly reflected economies of scale.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2009 increased by 24.9% to RMB2,735.2 million, as compared to RMB2,190.0 million for 2008, but decreased from 4.9% to 4.5% as a percentage of operating revenue mainly as a result of economies of scale.

OTHER EXPENSES

Other expenses of the Group for 2009 decreased by 48.0% to RMB 603.2 million, as compared to RMB1,159.7 million for 2008. The decrease was mainly due to a change in accounting presentation, whereby exchange losses recorded in 2008 were accounted for as "Other expenses," while exchange gains for 2009 were presented under "Other income and gains."

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2009 increased by 38.1% to RMB4,050.5 million, as compared to RMB2,932.8 million for 2008, while the operating profit margin grew from 6.6% for 2008 to 6.7% for 2009, primarily as a result of expanded business scale.

FINANCE COSTS

Finance costs of the Group for 2009 increased by 8.9% to RMB751.7 million, as compared to RMB690.2 million for 2008, reflecting primarily the increase in interest payments relating to factoring and interest bearing bank borrowings.

TAX

The Group's income tax expense for 2009 was RMB629.1 million, which was 79.4% higher as compared to RMB350.6 million for 2008, reflecting mainly the 47.0% growth in pre-tax profit for 2009 over 2008 coupled with a higher effective tax rate of 18.9% for 2009, as compared to 15.5% for 2008, as a result of rapid profit growth of certain subsidiaries which were subject to higher tax rates.

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

The Group's minority interests for 2009 amounted to RMB237.6 million, which was 5.6% lower as compared to RMB251.7 million for 2008. Minority interests decreased from 13.2% for 2008 to 8.8% for 2009 as a percentage of profit for the year, reflecting mainly reduced profit for subsidiaries with a higher level of minority interests.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2009 increased by 104.7% to RMB8.6 million, compared to RMB-181.5 million for 2008. The increase was mainly attributable to gains arising from the translation of financial statements denominated in foreign currencies.

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

Debt-equity ratio is calculated by dividing interest-bearing liabilities by the sum of interest-bearing liabilites and equity (including minority interests).

The Group's debt-equity ratio for 2009 was 41.8%, increasing by 1.0 percentage points as compared to 40.8% for 2008. The increase was mainly attributable to the relatively substantial increase in interest-bearing bank loans.

LIQUIDITY AND CAPITAL RESOURCES

In 2009, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements.

Cash and cash equivalents of the Group as of 31 December 2009 amounted to RMB14,075.8 million.

CASH FLOW DATA

Unit: RMB in millions

	2009	2008
Net cash inflow from operating activities	**3,381.8**	2,686.6
Net cash outflow from investing activities	**(2,998.6)**	(1,856.9)
Net cash inflow from financing activities	**2,332.2**	4,473.2
Net increase in cash and cash equivalents	**2,715.4**	5,302.9
Cash and cash equivalents at year-end	**14,075.8**	11,344.2

OPERATING ACTIVITIES

The Group had a net cash inflow from operating activities of RMB3,381.8 million for 2009 compared to RMB2,686.6 million for 2008, reflecting year-on-year increase of cash outflow for purchases and the provision of services by RMB7,821.4 million mainly as a result of expanded sales, increase of cash outflow for payments made to employees by RMB1,738.7 million, increase of tax payment by RMB772.3 million, coupled with increase of cash inflow for sales and the provision of services by approximately RMB13,128.5 million and the decrease of cash inflow from tax rebates by approximately RMB767.7 million.

INVESTING ACTIVITIES

The net cash outflow from the Group's investment activities for 2009 was RMB2,998.6 million compared to a net cash outflow of RMB1,856.9 million for 2008. Cash outflow was mainly applied in the purchase of property, plant and equipment with a cash payment of RMB1,592.1 million.

FINANCING ACTIVITIES

The Group's net cash flow from financing activities for 2009 was RMB2,332.2 million, compared to RMB4,473.2 million for 2008, reflecting mainly proceeds from the issue of Bonds cum Warrants in the previous year.

CAPITAL EXPENDITURE

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

Unit: RMB in millions

Capital expenditure	2009	2008
Purchases of fixed assets and construction in progress payments	**1,592.1**	1,229.6

The Group's capital expenditure in 2009 amounting to RMB1,592.1 million was mainly used for the completion of construction work at ZTE Industrial Park, equipment installation and the purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

	31 December	
Item	2009	2008
Secured bank loans	**2,431.4**	2,658.5
Unsecured bank loan	**6,811.5**	4,298.5

Unit: RMB in millions

	31 December	
Item	2009	2008
Short-term bank loans	**6,846.5**	5,664.5
Long-term bank loans	**2,396.4**	1,292.5

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

The Group's bank loans in 2009 increased mainly as a result of the borrowing of bank loans to provide additional working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

	31 December 2009			
Item	Total	Less than one year	Two to five years	More than five years
Bank loans	9,242.9	6,846.5	2,038.3	358.1
Operating lease obligations	425.7	196.7	197.5	31.5

CONTINGENT LIABILITIES

Unit: RMB in millions

	31 December	
Item	**2009**	2008
Guarantees given to banks in connection with borrowing to customers	**66.8**	77.2
Guarantees given to banks in respect of performance bonds	**7,721.6**	8,245.9
Total	**7,788.4**	8,323.1

CAPITAL COMMITMENTS

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

Unit: RMB in millions

	31 December	
Item	**2009**	2008
Land and buildings:		
Contracted, but not provided for	**1,240.4**	301.4
Investment in associates:		
Contracted, but not provided for	**18.9**	265.7
Land and buildings:		
Authorised, but not contracted	**5,834.0**	5,875.9

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 2009 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs in the 2009 annual report of the Company.

PROSPECTS FOR NEW BUSINESS

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

EMPLOYEES

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2009 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees" and "Corporate Governance Structure" in this annual report.

CHARGES ON ASSETS

Details of charges on the Group's assets as at 31 December 2009 are set out in note 31 to the financial statements prepared under HKFRSs.

PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group's material investments and their performance and prospects as at 31 December 2009 are set out section headed "Report of the Board of Directors" in this annual report.

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

MARKET RISKS

For details of the Group's exposure to interest rate risks and foreign exchange risks, please refer to the section headed "(III) Business outlook and risk exposure for 2010" in "REPORT OF THE BOARD OF DIRECTORS" of this annual report.

Report of the Supervisory Committee

(I) SUPERVISORY COMMITTEE MEETINGS

The Supervisory Committee held five meetings in 2009, the details of which are as follows:

1. The fourteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 19 March 2009, at which the "2008 report on the work of the Supervisory Committee", "Full Text of the 2008 Annual Report of the Company", "Summary of the 2008 Annual Report and Results Announcement of the Company", "the 2008 Financial Report of the Company as Audited by the PRC and Hong Kong Auditors", "the 2008 Final Financial Accounts of the Company", "Resolution on Significant Asset Impairment Provision for 2008 by the Company", "the 2008 Self-assessment Report on Internal Control of the Company", "Report of the Company on the Application of Proceeds from the Issue of Bonds cum Warrants", "Report of the Audit Committee on the 2008 Audit of the Company Performed by the PRC and Hong Kong Auditors", "Resolution of the Company on Determining the Audit Fees of the PRC Auditors and the Hong Kong Auditors of the Company for 2008", "Report on the Proposed Profit Distribution and Capitalisation from Capital Reserve of the Company for 2008", "Resolution of the Company on the Proposed Ongoing Connected Transaction Framework Agreement for 2009", "Resolution of the Company on the Proposed Revision of the Cap of Accumulated Transaction Amounts and the Execution of the Ongoing Connected Transaction Framework Agreement for 2009", "Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2009", "Resolution with respect to the Proposed Application by the Company to China Development Bank for US$2.5 billion Composite Credit Facilities" and the "Resolution on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for 2009" were considered and approved.

2. The fifteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 23 April 2009, at which the "2009 First Quarterly Report of the Company" and "Resolutions of the Company on Connected Transactions regarding the Lease of Property" were considered and approved.

3. The sixteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 6 July 2009, at which the "Resolution on Matters pertaining to the Implementation of the 'Phase I Share Incentive Scheme'", "Resolution of the Company on the Verification of the List of Scheme Participants in respect of the 'Phase I Share Incentive Scheme'" and "Resolution of the Company on the Verification of the List of Scheme Participants in respect of the First Unlocking under the 'Phase I Share Incentive Scheme'" were considered and approved.

4. The seventeenth meeting of the fourth session of the Supervisory Committee of the Company was held on 19 August 2009, at which the "Full Text and Summary of the 2009 Interim Report and the Results Announcement of the Company", "2009 Interim Final Financial Accounts" and "Resolution of the Company on the Continued Purchase of 'Liability Insurance for Directors, Supervisors and Senior Management'" and "Resolution on the 'Specific System for the Selection and Appointment of Accountants' Firm'" were considered and approved.

5. The eighteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 27 October 2009, at which the "2009 Third Quarterly Report of the Company" and "Resolutions of the Company on Continuous Connected Transactions" were considered and approved.

(II) THE SUPERVISORY COMMITTEE HAS FURNISHED ITS OPINION ON THE COMPANY'S CONDITIONS IN 2009 AS FOLLOWS:

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

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

3. The preparation and review processes for the full text and summary of the 2009 annual report of the Company have been in compliance with provisions of the laws and regulations and the Articles of Association. The contents and format of the full text and summary of the 2009 annual report of the Company are in compliance with various requirements of regulatory authorities including the CSRC, Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited. The 2009 financial report of the Company gives a true and accurate view of the financial position, and operating results of the Company for the year 2009.

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

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

Material Matters

(I) MATERIAL LITIGATION AND ABITRATION

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

1. In November 2005, Beijing Success Communications and Electronic Engineering Company Limited ("Beijing Success") instituted litigation against the Company's subsidiary Yangzhou Zhongxing Mobile Telecom Equipment Company Limited ("Yangzhou Zhongxing"), and the Company to demand an indemnity of RMB71 million, comprising the refund of an advanced payment of RMB35 million and compensation for interests and other losses amounting to RMB36 million.

   In December 2008, the Jiangsu Provincial High Court handed down its judgment for the first trial, which ruled that: (I) RMB35 million be refunded together with fund appropriation interests accrued on such amount to Beijing Success by Yangzhou Zhongxing; (II) Losses of Yangzhou Zhongxing amounting to over RMB11.66 million be indemnified by Beijing Success; (III) the Company be jointly responsible for the aforesaid liability of Yangzhou Zhongxing. The Company filed an appeal with the Supreme People's Court after receiving the first trial judgment. On 11 December 2009, the Supreme People's Court awarded a final judgement as follows: (I) RMB35 million be refunded to Beijing Success by Yangzhou Zhongxing; (II) Losses of Yangzhou Zhongxing amounting to over RMB35 million be indemnified by Beijing Success; (III) the Company be cleared of any legal liability.

2. In December 2005, a supplier of the Company alleged that the Company had breached the supply contract and infringed its intellectual property and claimed indemnity for a total amount of USD36.45 million (approximately RMB248,888,000) by instituting overseas arbitration.

   In April 2009, the Company received a formal notification from the arbitration court which ruled that the case be terminated and the compensation claim of the Korean Company be refuted, that the Korean Company should reimburse the Company for the cost incurred by the arbitration of the case (including the fee paid to the arbitration court by the Company).

3. In August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately USD1.714 million (approximately RMB11.704 million) in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million (approximately RMB15.50 million).

   Arbitration of the case was conducted at an arbitration court formed by ICC in Singapore during 25–28 July 2008. The Company was represented at all arbitration sessions. There was no substantial progress of the case during the reporting period. It is currently awaiting the final award of the arbitration court. Based on the legal opinion furnished by lawyers engaged by the Company, the Directors are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

4. An administrative penalty notice had been served upon Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company (the "Pakistanis Subsidiary"), by the Rawalpindi Collectorate of Customs in respect of a claim of additional custom duties of approximately RMB23.9 million for the misdeclaration of the imported goods by the Pakistanis Subsidiary and a fine of approximately RMB324 million.

   Following negotiations between the Group and the Rawalpindi Collectorate held in June 2007, the Rawalpindi Collectorate agreed that the fine might be exempted if the Pakistanis Subsidiary made a remedial tax payment of PKR177 million (approximately RMB14,355,000) before 30 June 2007. Such payment had been made by the Pakistanis Subsidiary before 30 June 2007. Subsequently, the Rawalpindi Collectorate issued a notice to the Pakistanis Subsidiary demanding the payment of an addition tax amount of approximately PKR62

million (approximately RMB5,272,000). The Pakistanis Subsidiary appealed to the Customs Appellate Court against such demand. There was no substantial progress of the case during the reporting period. The case is currently pending final judgment.

Based on the legal opinion on the dispute furnished by the lawyer engaged by the Company, the Directors are of the view that the Group has sufficient documentary evidence to defend itself against such payment and that the aforesaid matter will not have any material adverse impact on the Group's financial position and operating results for the current period.

5. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (approximately RMB61,878,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (approximately RMB26,602,000) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

   The Company will attempt every legal means to close off this case at smaller costs. The Directors are of he opinion that the aforesaid matter will not have any material adverse impact on the financial conditions of the Group for the current period.

6. In July 2008, an agent filed arbitration against the Company demanding the payment of agency fees and interests with a total amount of USD35,819,000 (approximately RMB244,579,000).

   On 30 September 2009, the Company received an arbitration award from the South China Sub-commission of the China International Economic and Trade Arbitration Commission. According to the award, the Company was required to pay a compensation of USD2 million to the agent and bear the arbitration costs of USD56,600. The total amount payable by the Company to the counterparty was USD2,056,600 (approximately RMB14,043,000).

7. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with first a slowdown in work, followed later by total suspension.

   In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement and the second trial is currently in progress.

   In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial.

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

Material Matters

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

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

(III) THE GROUP DID NOT HOLD ANY EQUITY INTERESTS OF OTHER LISTED COMPANIES OR STAKES IN FINANCIAL ENTERPRISES SUCH AS COMMERCIAL BANKS, SECURITIES COMPANIES, INSURANCE OMPANIES, TRUST COMPANIES AND FUTURES COMPANIES, NOR DID IT DEAL IN THE SHARES OF OTHER LISTED COMPANIES OR OTHERWISE ENGAGED IN SECURITIES INVESTMENT DURING THE REPORTING PERIOD.

(IV) EQUITY INTERESTS IN COMPANIES PROPOSED FOR LISTING AND NON-LISTED FINANCIAL ENTERPRISES

The application for initial public offering by Nationz Technologies Inc. ("Nationz Technologies"), an associate of the Company, was approved by the GEM Board Issue Approval Committee under the China Securities Regulatory Commission ("CSRC") at the 13th working meeting of 2010 of the Committee on 26 March 2010.

As at 31 December 2009, the Company owned 21.76 million shares of Nationz Technologies, representing 26.67% equity interest of Nationz Technologies before the offering.

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

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

Pursuant to the "Resolution of the Company regarding the adjustment of the number of Subject Shares and granting of Reserved Subject Shares to the staff under Phase I of the Share Incentive Scheme" considered and approved at the twentieth meeting of the fourth session of the Board of Directors of the Company held on 25 November 2008, it was approved that Reserved Subject Shares under the Phase I Share Incentive Scheme would be granted by the Company to key personnel who had made significant contributions to the Company (hereinafter the "Grant"). Subscription amounts for the Subject Shares were received from the Scheme participants for the Grant during the period from 26 November to 31 December 2008. Such proceeds would subsequently be applied as additional working capital of the Company. The number of Subject Shares under the Phase I Share Incentive Scheme of the Company was adjusted according to the Company's profit distribution and capitalisation from capital reserve for 2007 implemented on 10 July 2008. For details please refer to the "Announcement of the Resolutions passed at the Twentieth Meeting of the Fourth Session of the Board of Directors" of the Company.

As a result of adjustments to subject share quotas following the implementation of the Company's plans for capitalisation of capital reserve and profit distribution for 2007 and 2008, and owing to the departure of or waiver of the Phase I Share Incentive Scheme by certain Scheme Participants, it was confirmed at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that the number of Scheme Participants under the First Award of the Phase I Share Incentive Scheme of the Company was adjusted to 3,274 and the subject share quotas granted were correspondingly adjusted to 76,563,578 shares, and that the number of Scheme Participants under the Second Award of the Phase I Share Incentive Scheme of the Company was adjusted to 771 (including 23 employees who are also Scheme Participants under the First Award) and the subject share quotas granted were correspondingly adjusted to 8,486,660 shares.

The registration of Subject Share of 85,050,238 shares granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed. The unlocking of the Subject Shares under the Phase I Share Incentive Scheme of the Company was completed on 22 July 2009 and the listing of and trading in such shares commenced on 22 July 2009. Deducting Subject Share quota of 43,425 shares which had lapsed without unlocking, the total share capital of the Company had increased by 85,006,813 shares.

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. The impact of the Phase I Share Incentive Scheme of the Company on the Company's financial conditions and operating results for the reporting period and future periods is discussed in further detail in Note VII to the financial statements prepared under PRC ASBEs and Note 38 to the financial statements prepared under HKFRSs.

(VII) INFORMATION ON OFFERING AND ISSUE OF THE BONDS CUM WARRANTS OF THE COMPANY

1. Overview of Offering and Issue of the Bonds cum Warrants of the Company

"Resolution of the Company on the proposals for the offering and issue of the Bonds cum Warrants" was considered and approved at the seventh meeting of the fourth session of the Board of Directors of the Company convened on 16 August 2007. The resolution was considered and approved at the third extraordinary general meeting of the Company for 2007 convened on 16 October 2007. For details, please refer to the Announcement in respect of resolutions of the third extraordinary general meeting for 2007 of the Company published on 17 October 2007.

With the approval of China Securities Regulatory Commission by virtue of the document Zheng Jian Xu Ke [2008] No. 132, the Company issued 40,000,000 bonds with warrants amounting to RMB4 billion in total on 30 January 2008. The bonds are irrevocably and jointly guaranteed by China Development Bank for an amount of RMB4 billion in respect of bond principal and interest, default payments, indemnities and transaction costs related to the bonds.

The bonds have a nominal value of RMB100 each and a total issue amount of RMB4 billion. The coupon interest rate of the bonds cum warrants is 0.8% per annum, accruable from the issue date (30 January 2008).

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

The ultimate subscriber of ech ZTE Bond cum Warrant were issued 1.63 Warrants and a total of 65.20 million warrants were listed on the Shenzhen Stock Exchange on 22 February 2008. The warrants, coded "Zhongxing ZXC1", was valid from 22 February 2008 to 21 February 2010. The last trading day for "Zhongxing ZXC1" was 5 February 2010 (Friday) and trading has been terminated with effect from 8 February 2010 (Monday). Holders of "Zhongxing ZXC1" were entitled to exercise their rights during the last 10 trading days of the valid period, namely on trading days during the period from 1 February 2010 to 12 February 2010, both dates inclusive (the actual exercise period was from 1 to 12 February because 13 to 19 February 2010 coincided with the Chinese New Year holidays, while 20 to 21 February were double holidays). The adjusted exercise of the warrant on an ex-right and ex-dividend basis was RMB42.394 per share and the adjusted exercise ratio was 1:0.922, namely the holder of 1 "Zhongxing CX1" Warrant was entitled to purchase 0.922 ZTE A share at a price of RMB42.394 per share during the exercise period.

On 24 February 2010, the Group published the "Announcement on the Results of the Exercise of the "Zhongxing ZXC1" Warrants and Changes in Shareholding." As at the close of trading on 12 February 2010, a total of 23,348,590 "Zhongxing ZXC1" Warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 "Zhongxing ZXC1" Warrants had not been exercised and had lapsed. Following the exercise of the "Zhongxing ZXC1" Warrants, the Company's total issued share capital

Material Matters

increased from 1,889,631,015 shares prior to the exercise to 1,911,154,456 shares after the exercise. For details please refer to the "Announcement on the Results of the Exercise of the "Zhongxing ZXC1" Warrants and Changes in Shareholding" published by the Company on 24 February 2010.

2. Adjustments to the conversion price and latest conversion price as adjusted

On 5 June 2009, the Company's plans for profit distribution and capitalisation from capital reserve for 2008 were implemented and the exercise price and ratio of the warrant Zhongxing ZXC1 were adjusted to RMB42.394 and 1:0.922, respectively. Currently, the exercise of Zhongxing ZXC1 Warrants has been completed. Its valid period has been closed and the Warrants have been delisted.

3. There was no conversion, redemption or cancellation of the Bonds cum Warrants of the Company.

4. Top Ten Bond Holders and Their Holdings

As at 31 December 2009, the Top ten bond holders of the Company were as follows:

No.	Name of bond holder	Number of bonds held	Bond holding ratio(%)
1	New China Life Insurance Company Limited	7,991,671	19.98
2	Petroleum Finance Company Limited	4,163,207	10.41
3	China Life Insurance Company Limited	3,678,666	9.20
4	Taikang Life Insurance Co., Ltd.	3,655,350	9.14
5	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06
6	Shenzhen Ping An Life Insurance Company (深圳平安人壽保險公司)	2,200,013	5.50
7	China National Petroleum Corporation — Corporate Annuity Plan — Industrial and Commercial Bank of China	2,088,962	5.22
8	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34
9	PICC Health Insurance Company Limited — Traditional — General Insurance Products	1,400,000	3.50
10	China Pacific Insurance (Group) Coo., Ltd.	1,286,327	3.22

5. There was no significant change in the profitability, asset conditions and credit standing of China Development Bank, the guarantor for the Bonds cum Warrants of the Company.

6. Liabilities and credit rating changes of the Company and cash arrangements for debt repayments in future years.

During the reporting period, the Group's gearing ratio was 73.74% according to the financial statements repared under PRC ASBEs and there was no change in the Group's credit rating. The Bonds cum Warrants of the Group have a 5-year life from the date of issuance. Interest is payable annually with the interest payment date falling on the anniversary of the issuance of the Bonds cum Warrants. The Group will pay the interest for the current year within 5 business days following (and inclusive of) the interest payment date. All bonds will be redeemed by the Group within 5 trading days following the maturity of the current bonds in issue, at face value plus interest accruable for the final year.

7. Other information

On 27 February 2008, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with China Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. The "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was passed at the twelfth meeting of the fourth session of the

Board of Directors of the Company held on 13 March 2008. On 14 July 2008, the Company received the "Notice of Replacement of Sponsor's Representative" from Guotai Junan Securities Co., Ltd., the Company's sponsor in respect of the issue of Bonds cum Warrants. The Company published the "Announcement of Interest Payment for '"中興債1"' on 23 January 2010 and bond interests with a total amount of RMB32,000,000 were paid on 1 February 2010. Details of the aforesaid matters have been disclosed in China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn.

For details of the use of proceeds from the Bonds cum Warrants of the Company and the progress of projects using such funds, please refer to the section headed "10 (1) Use of proceeds" under "Report of the Board of Directors" of this annual report.

(VIII) APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS BY CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES

1. There was no appropriation and repayment of non-operating funds of the Company by the ontrolling shareholder and its connected parties.

2. Statement on fund appropriation issued by Ernst & Young

The "Statement on Amounts Receivable from the the Controlling Shareholder and Other Connected Parties by ZTE Corporation" issued by Ernst & Young Hua Ming was set out in an announcement published by the Company on 9 April 2010 on the website designated for information disclosure.

(IX) SIGNIFICANT CONNECTED TRANSACTIONS OF THE GROUP

1. Significant connected transactions of the Group during the year

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

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

During the reporting period, ongoing connected transactions (as defined in the Rules Governing Listing of Stocks on Shenzhen Stock Exchange) of the Group included the purchase of raw materials from and property leasing to connected parties by the Company and its subsidiaries. Such connected transactions were conducted after arm's length negotiation on the basis of normal commercial terms. The prices at which the Group made purchases from the connected parties were not higher than the prices at which the connected parties sell similar products to other users in similar quantities. The prices at which properties were leased to the Group by connected parties were not higher than market rates for the lease of similar properties in neighbouring areas. In addition, such connected transactions would not have any adverse impact on the Group's profit. The Group is not dependent on the connected party and the connected transactions do not affect the independence of the Group.

Connected parties from which the Group made purchases was selected as long-term supplier of the Group because they were able to manufacture products required by the Group on a regular basis and provide quality products and services at competitive prices. The Group considers trustworthy and cooperative suppliers as very important and beneficial to the Group's operations.

Connected parties who leased properties to the Group were able to provide lease properties in sound conditions at competitive prices. The Group considers trustworthy and cooperative partner as very important and beneficial to the Group's operations.

Details of the implementation of the Group's ongoing connected transactions during the year are set out in the following table (for information on the connected parties, their connected relationships with the Group, basic terms of the connected transactions agreements between the Group and the connected parties, estimated transaction

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amounts for 2009 under each agreement, impact of the connected transactions on the Group and review of the connected transactions by the Board of Directors or the general meeting of the Company, please refer to the "Announcement Regarding Connected Transactions", "Announcement Regarding Connected Transactions", "Announcement Regarding 2009 Ongoing Connected Transactions (as defined in the Rules Governing the Listing of Stocks on Shenzhen Stock Exchange)" and "Announcement Regarding Connected Transactions" published by the Company on 19 April 2007, 24 October 2008, 20 March 2009 and 24 April 2009 respectively in China Securities Journal, Securities Times and Shanghai Securities News.

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to December 2008 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated
Purchase of raw materials	ZTE Kangxun Telecom Company, Limited	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited, Shenzhen Zhongxing Xinyu FPC Company, Limited, Zhongxing Xinzhou Complete Equipment Co., Ltd.	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB1–RMB31,000 per unit; Cases: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames: RMB2-RMB300,000 per unit depending on level of sophistication and functional features; Soft circuit boards: RMB2-RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000-RMB100,000 per unit, depending on measurement, materials used and configuration.	69,843.9	2.04%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Various products such as communications antennas	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece, RF parts and components RMB350–4,100 per unit, depending on technical parameters and functional features.	33,163.2	0.97%	Banker's acceptance bill	No
Property leasing	ZTE Corporation and majority-owned subsidiary Chengdu Zhongxing Software Company, Limited	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 19,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (property management undertaken by ZTE and no management fees are payable)	870.07	2.68%	Banker's acceptance bill	No
	ZTE Corporation	Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees for landscape area)	2,126.07	6.55%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.; additional space with area of 6,000 sq.m. was leased with effect from 18 April 2009 and leased area was increased from 25,000 sq.m. to 31,000 sq.m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (property management undertaken by ZTE and no management fees are payable)	3,559.56	10.97%	Banker's acceptance bill	No
		Chongqing Zhongxing Development Company Limited (lessor)	Property located at No.3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/sq. m. (property management undertaken by the Company and no management fees are payable)	463.06	1.43%	Banker's acceptance bill	No

Connected transactions involving sales of products or provision of labour services to the Zhongxingxin and its subsidiaries by the Company during the year amounted to RMB3,302,310.

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

The Group has entered into connected transaction framework agreements with the following connected parties, and has fulfilled the requirements of reporting, announcement and shareholders' approval under Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong based on the estimated annual cap of each connected transaction. For details, please refer to the Announcement on Continuous Connected Transactions, Announcement on the Resolutions of the First Extraordinary General Meeting for 2007 and Announcement on Continuous Connected Transactions published on 2 November 2006, 14 March 2007 and 19 March 2009.

a) Sales of products by Kangquan, Lead and Hongde to Ruide

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

Kangquan was established on 2 June 2003 under the laws of the PRC with limited liability. The Company holds a 57.5% interest in the capital of Kangquan through Changfei, the Company's subsidiary in which the Company holds a 51% interest. Hongde was established on 21 January 2005 under the laws of the PRC with limited liability. The Company's other subsidiary Ruide holds a 83.33% interest in the capital of Hongde.

Kangquan, Lead and Hongde are all non-wholly owned subsidiaries of the Company and are part of the Group pursuant to the Hong Kong Listing Rules. However, Ruide became an associate of the Group with a 20% equity interest in Hongde after partial disposal of its equity interests in Hongde in April 2009, and transactions with Ruide did not constitute connected transactions with the Group.

Ruide is a non-wholly owned subsidiary of the Company established on 27 April 2004 under the laws of the PRC with limited liability. Changfei, holds a 57.5% interest in Ruide and Zhongxing Xindi holds an approximately 23% interest. The remaining approximately 19.5% interest in Ruide is held by a director and individual shareholder of Ruide. As Zhongxingxin was the controlling shareholder and a promoter of the Company, as an associate of Zhongxingxin, Zhongxing Xindi is a connected person at the level of the Company (but not the subsidiary of the Company). As Zhongxing Xindi was the substantial shareholder of Ruide, Ruide is therefore a connected person of the Company under the Listing Rules of the Stock Exchange of Hong Kong.

- Total transaction amount in 2009:

Approximately RMB11,968,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007–2009 connected transaction framework agreement in respect of the continuous sales of cases and accessories for handset batteries, LCD and battery cores to Ruide by Kangquan, Lead and Hongde. The purchase framework agreement shall be effective until 31 December 2009.

As suppliers of Ruide, Kangquan, Lead and Hongde were selected through a bidding process under which each potential supplier was assessed on its qualification, product quality and price. The prices for such transactions were determined after arm's length negotiations with reference to the prices quoted by Kangquan, Lead and Hongde respectively for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- Purpose of the transaction:

Ruide is primarily engaged in the production and sale of handset batteries. Kangquan, Lead and Hongde are respectively engaged in the production and sale of cases and accessories for handset batteries, LCM and battery cores. As the Group considers that having reliable and co-operative suppliers is important and beneficial to it, purchasing from Kangquan, Lead and Hongde allows the Group to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining

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product quality. Each of Kangquan, Lead and Hongde is consistently able to produce the quantity of products required by Ruide and provide quality products and services at competitive prices which were determined on the same basis as the prices of the products sold to independent third parties.

b) Purchases of handset batteries by ZTE Kangxun from Ruide

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

The Company holds 90% stake in ZTE Kangxun.

As explained in paragraph a), Ruide is a connected person of the Company under the Listing Rules of Hong Kong Stock Exchange.

- Total transaction amount in 2009:

Approximately RMB337,095,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007–2009 connected transaction framework agreement in respect of the continuous purchase of handset batteries from Ruide by ZTE Kangxun. The purchase framework agreement shall be effective until 31 December 2009. As the Group's sales of handsets increased in 2009, the total amount of handset batteries purchased by ZTE Kangxun is expected to exceed the approved annual cap for the year ended 31 December 2009. On 19 March 2009, the Board of Directors of the Company approved the increase of the annual cap of these transactions for the year ended 31 December 2009 to RMB550 million from the previous RMB392 million to meet the requirements arising from increased sales of handsets.

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.

- Purpose of the transaction:

The Group's handset products have become one of the major sources of revenue for the Company. The Directors of the Company consider it an important strategy 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.

c) Sales of liquid crystal displays (LCD) and electronic components by ZTE Kangxun to Lead.

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

Lead is a non-wholly owned subsidiary of the Company. The Company holds a 62.5% stake interest in the capital of Lead through Changfei. 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 Company under the Hong Kong Stock Exchange Listing Rules.

- Total transaction amount in 2009:

Approximately RMB3,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007–2009 connected transaction framework agreement in respect of the continuous sales of liquid crystal displays (LCD) and electronic components to Lead by ZTE Kangxun. The sales framework agreement shall be effective until 31 December 2009.

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 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.

- Purpose of the transaction:

The Group's handset products have become one of the major sources of revenue for the Company. 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 (as the Group's principal platform for procurement) 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.

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

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

Lead is 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 refer to the above for further details of Lead.

- Total transaction amount in 2009:

Approximately RMB144,337,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 25 October 2006, the Directors approved the 2007–2009 connected transaction framework agreement in respect of the continuous purchase of liquid crystal modules (LCM) from Lead by ZTE Kangxun. The purchase framework agreement shall be effective until 31 December 2009.

Lead will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Lead succeeds in its bid to supply to 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.

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- Purpose of the transaction:

The Group's handset products have become one of the major sources of revenue for the Company. 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 specialise 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 specialised supplier that would not otherwise be easily available from other suppliers for comparable prices.

e) *Purchases of raw materials and components comprising primarily telecommunications cabinets, cases and racks, distribution frames and shelters by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou*

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

Zhongxingxin is the largest shareholder of the Company.

Given that Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xindi is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 70% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xindi, as an associate of Zhongxingxin, constitutes a connected person of the Company.

Given that Zhongxing Xinyu is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinyu is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 55% stake in Zhongxing Xinyu. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xinyu, as an associate of Zhongxingxin, constitutes a connected person of the Company.

Given that Zhongxing Xinzhou is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinzhou is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Stock Exchange Listing Rules. Zhongxingxin holds a 55% stake in Zhongxing Xinzhou. Given that Zhongxingxin is a controlling shareholder of the Company (and also one of the promoters of the Company), Zhongxing Xinzhou, as an associate of Zhongxingxin, constitutes a connected person of the Company.

- Total transaction amount in 2009:

Approximately RMB698,439,000

- Pricing and other terms:

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.

- Purpose of the transaction

Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou 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, Zhongxing Xinyu was selected as the supplier of flexible printed circuit boards and Zhongxing Xinzhou was selected as the supplier of shelters. As the Group considers that having reliable and cooperative suppliers is important and beneficial to us, purchasing from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou 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.

f) Purchase of speakers, receivers, microphones, USB/data cable assembly, handset earphones and splitters by ZTE Kangxun from Shenzhen Fudekang Electronics Company Limited ("Shenzhen Fudekang")

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

Shenzhen Fudekang was established on 8 June 2006 under the laws of PRC with limited liability. Shenzhen Fudekang is the non-wholly owned subsidiary of Shenzhen Juxian Investment Company Limited ("Shenzhen Juxian"), which is the substantial shareholder of ZTE Microelectronics Technology Company Limited ("ZTE Microelectronics") which in turn is a non-wholly owned subsidiary of the Company. Shenzhen Juxian is therefore a connected person of the Group and Shenzhen Fudekang is an associate of Shenzhen Juxian and therefore is a connected person of the Group. Shenzhen Juxian disposed of its 51% equity interests in Shenzhen Fudekang in December 2009. Following the transfer of equity interests, Shenzhen Juxian was no longer holding any equity interests in Fudekang and Fudekang ceased to be a connected person of the Group.

- Total transaction amount in 2009:

approximately RMB32,594,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 19 March 2009, the Directors approved the connected transaction framework agreement between ZTE Kangxun and Shenzhen Fudekang in respect of the s purchase of speakers, receivers, microphones, USB/data cable assembly, handset earphones and splitters by ZTE Kangxun from Shenzhen Fudekang The purchase framework agreement was effective from 19 March 2009 until 31 December 2009.

A potential supplier to the Group must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become a qualified supplier. Shenzhen Fudekang was selected through the Group's qualification and bidding procedures as described in the above. Shenzhen Fudekang will still be required to undergo the Company's qualification and bidding procedures for other future transactions. The prices shall be determined on the same basis as the prices of similar quantities of the same or similar products sold to independent third parties by Shenzhen Fudekang.

- Purpose of the transaction

As the Group considers that having reliable and cooperative supplier is important and beneficial to it, purchasing from Shenzhen Fudekang allows the Group to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality. The Directors believe that Shenzhen Fudekang will be able to produce the quantity of products required by ZTE Kangxun and provide quality products and services at competitive prices which shall be determined on the same basis as the prices of similar products sold to independent third parties.

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g) Purchase of handsets from Nanchang Xingfei Technology Company Limited ("Nanchang Xingfei") by ZTE Kangxun

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

Shenzhen Juxian, being a connected person of the Group, is indirectly interested in 40% of the capital in Nanchang Xingfei by holding a 40% of the interest in the capital of Shenzhen Zhongxing Development Company Limited ("Zhongxing Development"), which in turns holds a 40% of the interest in the capital of ZTE Software Technology (Nanchang) Company Limited ("ZTE Software (Nanchang)"), which in turn holds a 40% of the interest in the capital of Nanchang Xingfei. Nanchang Xingfei is therefore an associate of Shenzhen Juxian and a connected person of the Group. In December 2009, ZTE Software (Nanchang) transferred its 40% interests in Nanchang Xingfei to Shenzhen Xingfei Technology Company Limited (深圳市興飛科技有限公司) ("Shenzhen Xingfei"). Following the transfer, Shenzhen held 100% interests in Nanchang Xingfei and Nanchang Xingfei ceased to be a connected person of the Group.

- Total transaction amount in 2009:

approximately RMB58,518,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 19 March 2009, the Directors approved the connected transaction framework agreement between ZTE Kangxun and Nanchang Xingfei in respect of the purchase of handsets from ZTE Kangxun by Nanchang Xingfei. The purchase framework agreement shall be effective from 19 March 2009 until 31 December 2009.

A potential supplier to the Group must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become a qualified supplier. Nanchang Xingfei was selected through the Group's qualification and bidding procedures as described in the above. Nanchang Xingfei will still be required to undergo the Company's qualification and bidding procedures for other future transactions. The prices shall be determined on the same basis as the prices of similar quantities of the same or similar products sold to independent third parties by Nanchang Xingfei.

- Purpose of the transaction

Nanchang Xingfei specializes in manufacturing customized handset products. The Group expects handset sales to continue to form a major part of its business in the near future and therefore it is important for the Group to maintain sufficient supply of the handset products. The Directors believe that Nanchang Xingfei will be able to produce the quantity of products required by ZTE Kangxun and provide quality products and services at competitive prices which shall be determined on the same basis as the prices of similar quantities of the same or similar products sold to independent third parties.

h) Supply of handset batteries and rechargers by Ruide to Nanchang Xingfei

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

Ruide is a non-wholly-owned subsidiary of the Company. Nanchang Xingfei's relationship with the Group is discussed in paragraph g) above.

- Total transaction amount in 2009:

approximately RMB25,916,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 19 March 2009, the Directors approved the connected transaction framework agreement between Ruide and Nanchang Xingfei in respect of the supply of handset batteries and rechargers by Ruide to Nanchang Xingfei. The purchase framework agreement shall be effective from 19 March 2009 until 31 December 2009.

The prices shall be determined on the same basis as the prices of the similar of the same or similar products sold to independent third parties by Ruide.

- Purpose of the transaction

As Nanchang Xingfei customarily manufactures handset products for the Group, purchasing from Ruide allows Nanchang Xingfei to have a reliable source of handset components and the Group will be able to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality.

i) Supply of handset keyboard and mechanical parts by Kangquan to Nanchang Xingfei

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

Kangquan is a non-wholly-owned subsidiary of the Company. Nanchang Xingfei's relationship with the Group is discussed in paragraph g) above.

- Total transaction amount in 2009:

approximately RMB1,048,000

- Pricing and other terms:

At the meeting of the Board of Directors held on 19 March 2009, the Directors approved the connected transaction framework agreement between Kangquan and Nanchang Xingfei in respect of the supply of handset keyboard and mechanical parts by Kangquan to Nanchang Xingfei. The purchase framework agreement shall be effective from 19 March 2009 until 31 December 2009.

The prices shall be determined on the same basis as the prices of the similar quantities of the same or similar products sold to independent third parties by Kangquan.

- Purpose of the transaction

As Nanchang Xingfei customarily manufactures handset products for the Group, purchasing from Kangquan allows Nanchang Xingfei to have a reliable source of handset mechanical parts and the Group will be able to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality.

j) Supply of liquid crystal modules (LCM) of handsets by Lead to Nanchang Xingfei

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

Lead is a non-wholly-owned subsidiary of the Company. Nanchang Xingfei's relationship with the Group is discussed in paragraph g) above.

- Total transaction amount in 2009:

approximately RMB5,049,000

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- Pricing and other terms:

At the meeting of the Board of Directors held on 19 March 2009, the Directors approved the connected transaction framework agreement between Lead and Nanchang Xingfei in respect of the supply of liquid crystal modules (LCM) of handsets by Ruide to Nanchang Xingfei. The purchase framework agreement shall be effective from 19 March 2009 until 31 December 2009.

The prices shall be determined on the same basis as the prices of the similar quantities of the same or similar products sold to independent third parties by Lead.

- Purpose of the transaction

As Nanchang Xingfei customarily manufactures handset products for the Group, purchasing from lead allows Nanchang Xingfei to have a reliable source of handset components and the Group will be able to secure essential control over most of the components of its production by being able to ensure timely delivery of such components while maintaining product quality.

k) Details of the Group's property leasing connected transactions with Zhongxingxin, Zhongxing Development and Chongqing Zhongxing Development during 2009 are set out under the heading of "Property Leasing" in the section headed "Significant connected transactions under applicable laws and regulations of the PRC" in this annual report. For details of the relationships and connections between the Group and Zhongxingxin, Zhongxing Development and Chongqing Zhongxing Development, please refer to the Announcement of Continuous Connected Transactions of the Company dated 23 April 2009.

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

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

3. The auditors of the Company have reviewed the continuing 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.

(X) DEBTORS AND CREDITORS BETWEEN THE GROUP AND ITS CONNECTED PARTIES

Debtors and creditors between the Company and its connected parties during the year were incurred during the ordinary course of business and did not have any material impact on the Company. There were no guarantees for connected parties between the Company and its connected parties.

(XI) MATERIAL CONTRACTS OF THE GROUP

1. *During the year, the Group did not put on translation, trust, sub-contract, or lease any assets of other companies nor did other companies put on trust, sub-contract or lease any of the Company's assets of a material nature*

2. *Third-party guarantee by the Company*

(1) Third-party guarantees of the Group during the reporting period are set out as follows:

Third party guarantees provided by the Company (excluding guarantees in favour of subsidiaries)

Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of connected parties (Yes/No)
Djibouti Telecom S.A	8 September 2006	RMB50 million	Joint liability	12 years	No	No
United Telecoms Limited (Note 1)	11 December 2006	INR73,923,700 (approximately RMB10,760,300)	Assurance	3 years	Yes	No
Benin Telecoms S.A. (Note 2)	28 June 2007	USD3 million (approximately RMB20,484,600)	Assurance	6.5 years	No	No

Total amount guaranteed during the year	0
Total balance of amount guaranteed at the end of the year (A)	RMB70,484,600
Guarantees provided in favour of subsidiaries	
Total amount guaranteed in favour of subsidiaries during the year (Note 3)	USD55,146,300
Total balance of amount guaranteed in favour of subsidiaries at the end of the year (B)	USD86,551,300
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)	
Total guaranteed amount (A+B)	RMB640,989,600
Total guaranteed amount as a percentage of net assets of the Company at the end of the year	3.81%
of which:	
Amounts of guarantees provided in favour of shareholders, effective controllers and their connected parties(C)	0
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% (Note 4) (D)	USD86,551,300
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above *(C+D+E)	USD86,551,300
Explanation of potential jointly liability in respect of outstanding guarantee	—

Material Matters

Note 1: Guarantee in favour of United Telecoms Limited of India provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a bank-issued irrevocable standby letter of credit. Performance of the guarantee has been completed as of now.

Note 2: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was approved by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 3: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile (''CJSC TK Mobile'') held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of USD40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the first extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, a USD5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's banking credit facilities has been executed and the USD40 million performance guarantee agreement has been signed. The guarantee to provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.

It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than USD30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary million and application be made by the Company to the relevant bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding USD3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the second extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the USD30 million performance guarantee provided by the Company has been signed and USD146,300 out of the USD3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

Note 4: In addition to guarantees described in Note 2 and Note 3, the Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.

Note 5: Guaranteed amounts denominated in Indian Rupee are translated at the exchange rate of 1 Indian Rupee to RMB0.14561 (being the book exchange rate of the Company on 31 December 2009). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.8282 (being the book exchange of the Company on 31 December 2009).

Note 6: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors.

(2) Progress of previously granted guarantees during the reporting period:

In January 2005, the Company performed its guarantee to make a repayment of RMB3.50 million on behalf of Chengdu Information Port Company Limited. As at 1 September 2009, Juyou Industrial Group Limited, as counter-guarantor, had made a repayment of RMB1.85 million to the Company, and an amount of RMB1.65 million remained outstanding. The Company reached an agreement with Juyou Industrial Group Limited in September 2009, whereby the Company agreed to release Juyou Industrial Group Limited from any responsibility for guarantee and compensation after the one-off repayment of RMB1.05 million to the Company by Juyou Industrial Group Limited. (Please refer to the 2005 annual report of the Group for details of the guarantee).

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

4. Progress during the reporting period of contracts signed during or before the reporting period

No.	Contents of material contracts	Date of disclosure	Newspaper for publication	Performance
1	Framework agreement and business contracts thereunder with Ethiopian Telecommunications Corporation	30 April 2007	China Securities Journal, Securities Times, Shanghai Securities News	Under normal progress
2	GSM Phase II project contract with Ethiopian Telecommunications Corporation	20 September 2007		Under normal progress
3	Wireless Net Project ZTE Equipment Purchase Contract under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	18 November 2008		Completed
4	A series of contracts with respect to Business Net under China Telecom Mobile Network Construction (Phase 1, 2008) with China Telecommunications Corporation	18 November 2008		Completed
5	Series of contracts in relation to the purchase of core network equipment under China Telecom Mobile Network Construction (Phase 1, 2008) and the purchase of Integrated Service Provision Platform (ISPP) equipment for China Telecom Mobile Network Construction (Phase 1, 2008)	4 December 2008		Completed

Material Matters

(XII) UNDERTAKINGS

Status of Undertakings Given by the Company and its Related Parties

Undertakings	Given by:	Details	Performance
Other undertakings (including additional undertakings)	Zhongxingxin	On 10 October 2008, Zhongxingxin, the controlling shareholder of the Company, acquired additional A shares in the Company through the trading system of Shenzhen Stock Exchange. Zhongxingxin undertook that it would not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period. As at 9 October 2009, the additional share acquisition by Zhongxingxin, controlling shareholder of the Company, was completed and a total of 7,649,116 A shares in the Company had been additional acquired on a cumulative basis. The additional acquisition was in compliance with relevant provisions of the Securities Law and other relevant laws and regulations, departmental rules and the business rules of Shenzhen Stock Exchange. For details please refer to the Announcement of the Completion of the Controlling Shareholders' Acquisition of Additional Shares in the Company published by the Company in China Securities Journal, Securities Times and Shanghai Securities News and on www.cninfo.com on 10 October 2009	In compliance with its undertaking, Zhongxingxin did not sell down its holdings of shares in the Company during the period of additional acquisition and the statutory period.

(XIII) APPOINTMENT OF AUDITORS

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

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

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Presentation of Company	Hong Kong	March 2009	2008 annual results presentation	Analysts and investors	2008 annual report	Published announcements and regular reports
	Hong Kong	March 2009	Teleconference	Analysts and investors	2008 annual report	Published announcements and regular reports
	Shenzhen	March 2009	Analysts' meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2009	2009 interim results presentation	Analysts and investors	2009 interim report	Published announcements and regular reports
External meetings	Shanghai	January 2009	UBS Greater China Forum	UBS customers	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	March 2009	Credit Suisse Asia Investment Forum	Credit Suisse customers	Day-to-day operations of the Company	Published announcements and regular reports
	Xiamen	May 2009	SYWG investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2009	China Merchant Securities interim strategy meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2009	Ping An Securities interim strategy meeting	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	September 2009	Everbright Securities investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	October 2009	Merrill Lynch investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	November 2009	Credit Suisse investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	November 2009	Everbright Securities investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Zhuhai	November 2009	Sinolink Securities investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Kunming	December 2009	CITIC Securities investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	December 2009	SYWG investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	December 2009	China Securities investors' interviews	Analysts and investors	Day-to-day operations of the Company	Published announcements and regular reports

Material Matters

Nature	Location	Time	Mode	Audience received	Contents of discussion	Materials furnished
Company visits by analysts	Overseas investors					
	Company	2009	Verbal	Merrill Lynch, Citibank, BlackShip Capital Management, Greenwoods Asset Management, Daiwa Securities, Mitsui, Oppenheimer Fund, Henderson Global, Matthews International, BOCI, First Shanghai, Deutsche Bank, CLSA, Collins Stewart, KGI Securities, Atlantis Investment, JP Morgan asset management, Mirae Asset Securities, Joho Capital, Samsung Investment, Sansar Capital, Threadneedle Asset UK, Credit Suisse, American Century, ClearBridge US, Stena Investment, Yuantai Securities, HSBC, Mainfirst, Goldman Sachs, HQ Fonder, Cazenove Asia Ltd, Earnings Partners, BNP, Fidelity Funds, Amundi Funds, Ward Ferry Management Ltd., Taifook Securities, Mitsubishi UFJ Investment Services, Matterhorn Capital Management, Tremblant Capital, Macquarie Securities, Bogan Science Fund, L.P., Halbis Capital Management	Day-to-day operations of the Company	Published announcements and regular reports
	Domestic investors					
	Company	2009	Verbal	CICC, China Universal Asset Management, CCBI, China Merchants Securities, Donghai Securities, Guotai Junan, Kim Eng Securities, CITIC Securities, Changsheng Fund, Dacheng Fund, China AMC Fund, Yinhua Fund, Hong Yuan Securities, SouthChina Securities, Guangzhou Securities Research, Everbright Securities, BoCom-Schroders, Ping An Securities, Guangfa Fund, China Jianyin Investment Securities, China International Fund Management, HSBC Jintrust, China Merchants Fund, UBS SDIC.	Day-to-day operations of the Company	Published announcements and regular reports

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

During the year, none of the Company, its directors, supervisors, senior management or shareholders holding 5% or more of shares of the Company was subject to investigation by competent authorities, enforcement by judiciary or disciplinary authorities, prosecution for criminal charges, examination by CSRC, administrative penalty by CSRC, prohibition from participation in the securities market, opinion of deemed inappropriateness, punishment by other administrative authorities and public censure by the Shenzhen Stock Exchange.

(XVI) SIGNIFICANT ASSET IMPAIRMENT PROVISION

There was no significant provision for asset impairment in 2009.

(XVII) SIGNIFICANT EVENTS

During the year, no significant events as specified under Rule 67 of the Securities Law of the People's Republic of China and Rule 17 of Detailed Rules Governing Public Listed Companies' Information Disclosure (Provisional) and matters which the Board of Directors considered as significant events occurred to the Company.

(XVIII) OTHER MATERIAL MATTERS

The Company and 10 of its majority-owned subsidiaries have been listed on the Public Notice List for National High-Tech Enterprises and awarded the "High-Tech Enterprises Certificates" following relevant assessment and examination procedures in accordance with relevant provisions of the "Administrative Measures for the Recognition of High-Tech Enterprises" (《高新技術企業認定管理辦法》) (Guo Ke Fa Huo [2008] No. 172) and the "Guidelines for the Administration of High-Tech Enterprises Recognition "(《高新技術企業認定管理工作指引》) (Guo Ke Fa Huo [2008] No. 362). For details please refer to the respective "Announcements on Matters Relating to the Recognition of High-Tech Enterprises" published by the Company on 5 March 2009 in China Securities Journal, Securities Times and Shanghai Securities News.

(XIX) THERE WERE NO OTHER DISCLOSABLE MATERIAL MATTERS THAT OCCURRED TO THE COMPANY AND ITS SUBSIDIARIES DURING THE YEAR AND REMAINED UNDISCLOSED.

Independent Auditors' Report

Ernst & Young Hua Ming (2010) Shen Zi No. 60438556_H01

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

To the Shareholders of ZTE Corporation:

We have audited the accompanying financial statements of ZTE Corporation (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated and company balance sheets as at 31 December 2009, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2009 and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining the internal control relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. RESPONSIBILITY OF THE CERTIFIED PUBLIC ACCOUNTANT

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (continued)

III. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the financial position of the Group and the Company as at 31 December 2009 and the results of their operations and their cash flows for the year ended 31 December 2009.

Ernst & Young Hua Ming

Chinese Certified Public Accountant:
Xie Feng

Beijing, the People's Republic of China

Chinese Certified Public Accountant:
Liao Wenjia

8 April 2010

Consolidated Balance Sheet

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

Assets	Note V	2009	2008
Current assets			
Cash	1	**14,496,808**	11,480,406
Bills receivable	3	**779,112**	1,578,473
Trade receivables	4	**15,319,215**	9,972,495
Factored trade receivables	4	**2,870,221**	1,658,941
Other receivables	5	**1,059,829**	757,847
Prepayments	6	**355,422**	355,887
Inventories	7	**9,324,800**	8,978,036
Amount due from customers for contract works	8	**11,388,496**	7,894,010
Total current assets		**55,593,903**	42,676,095
Non-current assets			
Available-for-sale financial assets	9	**253,760**	251,148
Long-term trade receivables	10	**383,749**	612,008
Factored long-term trade receivables	10	**2,968,629**	753,568
Long-term equity investments	12	**440,282**	168,433
Fixed assets	13	**4,714,533**	4,103,076
Construction in progress	14	**1,332,735**	817,086
Intangible assets	15	**613,773**	589,084
Development costs	15	**778,375**	476,020
Deferred tax assets	16	**643,918**	400,265
Long-term deferred assets		**10,306**	19,138
Other non-current assets	1	**608,359**	—
Total non-current assets		**12,748,419**	8,189,826
TOTAL ASSETS		**68,342,322**	50,865,921

Consolidated Balance Sheet (continued)

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

Liabilities and shareholders' equity	Note V	2009	2008
Current liabilities			
Short-term loans	18	**4,906,503**	3,882,479
Bank advances on factored trade receivables	4	**2,870,221**	1,658,941
Derivative financial liabilities	2	**—**	12,560
Bills payable	19	**8,484,861**	6,318,059
Trade payables	20	**13,046,804**	9,495,946
Amount due to customers for contract works	8	**2,519,706**	2,965,582
Advances from customers	21	**2,337,628**	1,392,862
Salary and welfare payables	22	**2,398,720**	1,443,017
Taxes payable	23	**77,715**	(765,040)
Dividends payable	24	**16,966**	22,750
Other payables	25	**2,213,477**	1,553,011
Deferred income		**92,830**	64,281
Provisions	26	**189,664**	170,382
Long-term loans due within one year	27	**1,939,965**	1,782,006
Total current liabilities		**41,095,060**	29,996,836
Non-current liabilities			
Long-term loans	28	**2,396,393**	1,292,547
Bank advances on factored long-term trade receivables	10	**2,968,629**	753,568
Bonds cum warrants	29	**3,632,681**	3,514,652
Specific payables	30	**—**	80,000
Deferred tax liabilities	16	**3,924**	5,019
Other non-current liabilities	31	**296,769**	39,752
Total non-current liabilities		**9,298,396**	5,685,538
Total liabilities		**50,393,456**	35,682,374
Shareholders' equity			
Share capital	32	**1,831,336**	1,343,330
Capital reserves	33	**6,749,899**	6,298,172
Restricted shares subject to lock-up	34	**(447,235)**	—
Surplus reserves	35	**1,505,203**	1,431,820
Retained profits	36	**6,853,682**	5,021,369
Proposed final dividends	36	**552,425**	402,999
Foreign currency translation differences		**(220,043)**	(248,146)
Total equity attributable to equity holders of the parent		**16,825,267**	14,249,544
Minority interests		**1,123,599**	934,003
Total shareholders' equity		**17,948,866**	15,183,547
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**68,342,322**	50,865,921

The financial statements set out on page 122 to 246 have been signed by:

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

Consolidated Income Statement

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

	Note V	2009	2008
Operating revenue	37	**60,272,563**	44,293,427
Less: Operating costs	37	**40,623,339**	29,492,530
Taxes and surcharges	39	**692,933**	415,854
Selling and distribution costs		**7,044,382**	5,312,516
Administrative expenses		**2,567,928**	2,099,715
Research and development costs		**5,781,583**	3,994,145
Finance expenses	42	**784,726**	1,308,254
Impairment losses	43	**737,940**	419,358
Add: Gains/(losses) from changes in fair values	40	**12,560**	(128,328)
Investment income	41	**11,871**	122,666
Including: Share of profits and losses of jointly-controlled entities and associates	41	**26,002**	19,877
Operating profit		**2,064,163**	1,245,393
Add: Non-operating income	44	**1,391,420**	1,098,296
Less: Non-operating expenses	44	**130,841**	81,146
Including: Loss on disposal of non-current assets		**26,744**	37,154
Total profit		**3,324,742**	2,262,543
Less: Income tax	45	**629,081**	350,608
Net profit		**2,695,661**	1,911,935
Net profit attributable to owners of the parent		**2,458,121**	1,660,199
Minority interests		**237,540**	251,736
Earnings per share	46		
Basic earnings per share		**RMB1.40**	RMB0.95
Diluted earnings per share		**RMB1.35**	RMB0.93
Other comprehensive income	47	**8,644**	(181,500)
Total comprehensive income		**2,704,305**	1,730,435
Including:			
Total comprehensive income attributable to owners of the parent		**2,486,224**	1,477,615
Total comprehensive income attributable to minority interests		**218,081**	252,820

Consolidated Statement of Changes in Equity

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

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

Note 1: The capital injection and equity settled share expenses charged to equity in the current year related to Share Incentive Scheme. See Note V.33.

Consolidated Statement of Changes in Equity (continued)

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

	2008								
	Equity attributable to equity holders of the parent								
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current year's opening balance	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247	12,888,408
II. Changes during the year									
(1) Net profit	–	–	–	1,660,199	–	–	1,660,199	251,736	1,911,935
(2) Other comprehensive income	–	–	–	–	–	(182,584)	(182,584)	1,084	(181,500)
Total comprehensive income	–	–	–	1,660,199	–	(182,584)	1,477,615	252,820	1,730,435
(3) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	–	–	–	–	–	–	–	–
2. Equity settled share expense charged to equity	–	299,551	–	–	–	–	299,551	–	299,551
3. Others	–	(9,876)	–	–	–	–	(9,876)	(19,984)	(29,860)
(4) Profit appropriation									
1. Appropriation to surplus reserves	–	–	67,062	(67,062)	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(239,880)	–	(239,880)	(50,080)	(289,960)
3. Proposed final dividends	–	–	–	(402,999)	402,999	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	383,808	(383,808)	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–
4. Others									
(6) Others									
1. Issue of bond cum warrants	–	580,210	–	–	–	–	580,210	–	580,210
2. Effect of changes of other equity holders' interest in invested entities by equity method	–	4,763	–	–	–	–	4,763	–	4,763
III. Current year's closing balance	1,343,330	6,298,172	1,431,820	5,021,369	402,999	(248,146)	14,249,544	934,003	15,183,547

Consolidated Cash Flow Statement

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

	Note V	2009	2008
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**58,137,378**	45,008,874
Refunds of taxes		**3,204,945**	3,972,631
Cash received relating to other operating activities	48	**442,533**	325,759
Sub-total of cash inflows		**61,784,856**	49,307,264
Cash paid for goods and services		**38,252,058**	30,430,667
Cash paid to and on behalf of employees		**7,899,513**	6,160,806
Cash paid for all types of taxes		**3,287,551**	2,515,238
Cash paid relating to other operating activities	48	**8,616,462**	6,552,640
Sub-total of cash outflows		**58,055,584**	45,659,351
Net cash flows from operating activities	49	**3,729,272**	3,647,913
II. Cash flows from investing activities			
Cash received from sale of investments		**12,933**	15,392
Cash received from return on investments		**5,210**	89,862
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**1,011**	52,554
Sub-total of cash inflows		**19,154**	157,808
Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**2,053,824**	1,911,923
Cash paid for acquisition of investments		**266,425**	233,536
Sub-total of cash outflows		**2,320,249**	2,145,459
Net cash flows from investing activities		**(2,301,095)**	(1,987,651)
III. Cash flows from financing activities			
Cash received from capital injections		**46,371**	43,342
Including: Capital injection into subsidiaries by minority shareholders		**22,070**	—
Cash received from the issue of bonds cum warrants		**—**	3,961,444
Cash received from borrowings		**9,721,064**	9,365,004
Sub-total of cash inflows		**9,767,435**	13,369,790
Cash repayments of borrowings		**7,435,235**	8,896,625
Cash payments for distribution of dividends, profits and for interest expenses		**1,045,009**	830,481
Including: Distribution of dividends and profits by subsidiaries to minority shareholders		**44,227**	68,510
Sub-total of cash outflows		**8,480,244**	9,727,106
Net cash flows from financing activities		**1,287,191**	3,642,684
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**16,294**	(268,535)
V. Net increase in cash and cash equivalents		**2,731,662**	5,034,411
Add: cash and cash equivalents at beginning of year		**11,344,160**	6,309,749
VI. Net balance of cash and cash equivalents	49	**14,075,822**	11,344,160

Balance Sheet

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

Assets	Note XIII	2009	2008
Current assets			
Cash		**10,096,875**	8,331,272
Bills receivable		**672,374**	1,513,358
Trade receivables	1	**19,557,131**	13,186,642
Factored trade receivables	1	**2,727,445**	1,783,941
Prepayments		**173,408**	18,546
Dividends receivable		**1,017,020**	23,848
Other receivables	2	**3,240,367**	1,442,177
Inventories		**4,747,278**	5,211,017
Amount due from customers for contract works		**10,829,088**	8,038,449
Total current assets		**53,060,986**	39,549,250
Non-current assets			
Available-for-sale financial assets	3	**244,448**	243,198
Long-term trade receivables	4	**1,347,932**	1,214,038
Factored long-term trade receivables	4	**3,093,629**	753,568
Long-term equity investments	5	**2,196,637**	1,747,760
Fixed assets		**3,195,746**	2,608,957
Construction in progress		**790,491**	402,290
Intangible assets		**481,171**	479,947
Development costs		**151,564**	137,915
Deferred tax assets		**382,537**	231,182
Other non-current assets		**608,359**	—
Total non-current assets		**12,492,514**	7,818,855
TOTAL ASSETS		**65,553,500**	47,368,105

Balance Sheet (continued)

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

Liabilities and shareholders' equity	Note XIII	2009	2008
Current liabilities			
Short-term loans		**3,388,734**	1,273,828
Bank advances on factored trade receivables	1	**2,727,445**	1,783,941
Derivative financial liabilities		**—**	12,560
Bills payable		**9,473,080**	6,901,568
Trade payables		**17,834,626**	12,582,726
Amount due to customers for contract works		**2,153,082**	2,408,455
Advances from customers		**2,039,175**	1,640,192
Salary and welfare payables		**878,705**	596,515
Taxes payable		**(307,988)**	(993,777)
Dividends payable		**75**	10
Other payables		**5,662,122**	4,188,152
Deferred income		**33,237**	31,263
Provisions		**88,298**	100,724
Long-term loans due within one year		**1,204,846**	673,384
Total current liabilities		**45,175,437**	31,199,541
Non-current liabilities			
Long-term loans		**1,742,512**	1,005,039
Bank advances on factored long-term trade receivables	4	**3,093,629**	753,568
Bonds cum warrants		**3,632,681**	3,514,652
Specific payables		**—**	80,000
Deferred tax liabilities		**1,143**	7,242
Other non-current liabilities		**296,769**	39,752
Total non-current liabilities		**8,766,734**	5,400,253
Total liabilities		**53,942,171**	36,599,794
Shareholders' equity			
Share capital		**1,831,336**	1,343,330
Capital reserves		**6,745,877**	6,271,137
Restricted shares subject to lock-up		**(447,235)**	—
Surplus reserves		**842,986**	769,603
Retained profits		**2,100,763**	1,992,735
Proposed final dividends		**552,425**	402,999
Foreign currency translation differences		**(14,813)**	(11,493)
Total shareholders' equity		**11,611,329**	10,768,311
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**65,553,500**	47,368,105

Income Statement

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

	Note XIII	2009	2008
Operating revenue	6	**55,057,688**	40,745,196
Less: Operating costs	6	**45,634,129**	33,455,197
Taxes and surcharges		**80,016**	89,472
Selling and distribution costs		**5,247,526**	4,076,649
Administrative expenses		**1,517,716**	1,131,736
Research and development costs		**1,619,869**	885,718
Finance expenses		**810,802**	1,013,256
Impairment losses		**492,847**	164,869
Add: Gains/(losses) from changes in fair values		**12,560**	(136,203)
Investment income	7	**1,051,371**	1,268,859
Including: Share of profits and losses of Jointly-controlled entities and associates	7	**12,089**	1,867
Operating profit		**718,714**	1,060,955
Add: Non-operating income		**268,136**	127,061
Less: Non-operating expenses		**47,713**	46,571
Including: Loss on disposal of non-current assets		**10,455**	17,879
Total profit		**939,137**	1,141,445
Less: Income tax		**205,311**	163,583
Net profit		**733,826**	977,862
Other comprehensive income		**(3,320)**	(7,842)
Total comprehensive income		**730,506**	970,020

Statement of Changes in Equity

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

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

Note 1: The capital injection and equity settled share expenses charged to equity in the current year related to Share Incentive Scheme. See Note V.33.

Statement of Changes in Equity (continued)

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

	2008						
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current year's opening balance	959,522	5,772,061	769,603	1,417,872	239,880	(3,651)	9,155,287
II. Changes during the year							
(1) Net profit	—	—	—	977,862	—	—	977,862
(2) Other comprehensive income	—	—	—	—	—	(7,842)	(7,842)
Total comprehensive income	—		—	977,862	—	(7,842)	970,020
(3) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	299,551	—	—	—	—	299,551
3. Others	—	—	—	—	—	—	—
(4) Profit appropriation							
1. Appropriation to surplus reserves	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(239,880)	—	(239,880)
3. Proposed final dividends	—	—	—	(402,999)	402,999	—	—
4. Others	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	383,808	(383,808)	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others							
(6) Others							
1. Issue of bond cum warrants	—	580,210	—	—	—	—	580,210
2. Effect of changes of other equity holders' interest in invested entities by equity method	—	3,123	—	—	—	—	3,123
III. Current year's closing balance	1,343,330	6,271,137	769,603	1,992,735	402,999	(11,493)	10,768,311

Cash Flow Statement

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

	Note XIII	2009	2008
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**51,366,991**	39,233,345
Refunds of taxes		**2,099,164**	3,088,258
Cash received relating to other operating activities		**317,223**	213,248
Sub-total of cash inflows		**53,783,378**	42,534,851
Cash paid for goods and services		**44,383,735**	31,511,180
Cash paid to and on behalf of employees		**2,126,248**	1,523,431
Cash paid for all types of taxes		**168,456**	149,482
Cash paid relating to other operating activities		**6,113,866**	4,734,886
Sub-total of cash outflows		**52,792,305**	37,918,979
Net cash flows from operating activities	8	**991,073**	4,615,872
II. Cash flows from investing activities			
Cash received from sale of investments		**5,572**	—
Cash received from return on investments		**53,217**	97,900
Sub-total of cash inflows		**58,789**	97,900
Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**1,601,175**	1,302,964
Cash paid for acquisition of investments		**410,925**	805,114
Sub-total of cash outflows		**2,012,100**	2,108,078
Net cash flows from investing activities		**(1,953,311)**	(2,010,178)
III. Cash flows from financing activities			
Cash received from capital injection		**29,771**	43,342
Cash received from the issue of bonds cum warrants		**—**	3,961,444
Cash received from borrowings		**7,544,169**	6,372,399
Sub-total of cash inflows		**7,573,940**	10,377,185
Cash repayment of borrowings		**4,160,328**	8,376,712
Cash payments for distribution of dividends, profits and for interest expenses		**945,760**	668,330
Sub-total of cash outflows		**5,106,088**	9,045,042
Net cash flows from financing activities		**2,467,852**	1,332,143
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**(21,136)**	(218,452)
V. Net increase in cash and cash equivalents		**1,484,478**	3,719,385
Add: cash and cash equivalents at beginning of year		**8,323,750**	4,604,365
VI. Net balance of cash and cash equivalents		**9,808,228**	8,323,750

Notes to Financial Statements

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

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Jilin Posts and Telecommunications Equipment Company and Hebei Telecommunications Equipment Company Limited and incorporated in People's Republic of China ("PRC") through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No. 452 and Document Zheng Jian Fa Zi No. 453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

In 2003, Shenzhen Zhaoke Investment Development Company Limited transferred its entire shares in the Company to Shenzhen Gaotejia Venture Investment Company Limited. The date of the share transfer was more than three years from the date of establishment of the Company and therefore was in compliance with the applicable provision under the PRC Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Company Limited transferred its entire shares in the Company to Fortune Trust & Investment Company Ltd. Fortune Trust & Investment Company Ltd. transferred its entire shares in the Company to Jade Dragon (Mauritius) Company Limited in November 2005. On 29 December 2006, the shares of the Company owned by Jade Dragon (Mauritius) Company Limited were unlocked.

On 11 November 1997, the Company was registered and established upon approval by Guangdong Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 440301103852869 (revised on 23 February 2009). The Company and its subsidiaries (collectively the "Group") mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized sub-contracting of telecommunications projects.

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

Notes to Financial Statements

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

I. CORPORATE BACKGROUND (continued)

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

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

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

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company. After the deduction of Subject Share quota of 43,425 shares which had lapsed, the total number issued share capital of the Company has increased by 85,006,813 shares. As at 31 December 2009, the total number of the Company's issued share capital on an accumulative basis was 1,831,336,215 shares. Please refer to Note V.32 for details.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 8 April 2010. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

These financial statements have been prepared in accordance with the "Enterprise Accounting Standards — Basic Standards" and 38 specific accounting standards, subsequent practice notes, interpretations and other relevant regulations (collectively "ABSEs") promulgated by the Ministry of Finance in February 2006.

The financial statements are prepared on a going concern basis.

The Group's accounts have been prepared on an accrual basis. All items are recorded by using historical cost as the basis of measurement except for some financial instruments. Impairment provision is made according to relevant regulation if the assets are impaired.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2009 and the results of their operations and their cash flows for the year ended 31 December 2009.

3. Financial year

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

4. Reporting currency

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

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

5. Business combination

Business combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The combining party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being combined. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

Any costs directly attributable to the combination are recognized as expenses when incurred by the combining party.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Business combination (continued)

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The cost of acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed, equity instruments issued by the acquirer at the acquisition date, and all the costs incurred directly attributable to the acquisition, in exchange for control of the acquiree. The cost of acquisition of a business combination which is completed through multiple transactions is the sum of the cost of each transaction. Where a future event which is likely to affect combination costs has been agreed upon in the combination contract, and it is estimated as at the acquisition date that occurrence of the future event is likely and that the amount of impact on the combination cost can be reliably measured, such impact should be included in the combination cost.

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

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and the measurement of the cost of combinations. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the remaining difference is recognised in the profit or loss for the current period.

6. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements as at 31 December 2009. Subsidiaries are those enterprises or entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All profit and loss and unrealized profit and loss arising from intercompany transactions, and intercompany balances are eliminated on consolidation.

The consolidated portion of shareholders' equity of the subsidiaries not held by the Group is presented separately as minority interests in the consolidated financial statements.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Consolidated financial statements (continued)

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees will be recognized in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being combined will be recognized in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

7. Cash and cash equivalents

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

8. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the average exchange rate for the period when transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The exchange differences arising from the above translation, except those relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of capitalization of borrowing costs, are recognized in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate. The exchange differences arising from the above translation are recognized in current profit or loss or other comprehensive income.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognized on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognized when one of the following criteria is met:

(1) The right of receiving the cash flow generated from the financial asset has expired;

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

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognized in profit or loss.

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

Classification and valuation of financial assets

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions or ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortization are recognised in the current profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as other comprehensive income in capital reserves until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Financial guarantee contracts

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognized as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortization.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Bonds cum warrants

Upon issuance, the Group determines in accordance with the terms of the bonds cum warrants whether such bonds cum warrants consist of both equity and liability components. For bonds cum warrants that carry both equity and liability components, liability and equity are separately dealt with upon initial recognition. During the segregation, the fair value of the liability is first determined and recognized. Then the initial recognition of the equity component is determined by deducting the initial liability recognition amount from the overall issue price of the bonds cum warrants. Transaction costs are apportioned between liability and equity components according to their respective fair values. The liability component is presented as liability and subsequently measured on an amortised cost basis, until it is cancelled, converted or redeemed. The equity component is presented as equity and not remeasured in subsequent years.

The fair value of financial instruments

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments without active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willingness parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on such financial assets has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. If floating interest rates are used, the current effective interest rate stipulated in the contract shall be adopted as the discount rate in calculating the present value of the future cash flows.

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed which is recognized in profit or loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognized in other comprehensive income.

Assets carried at cost

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

For long term equity investments measured using the cost method regulated in "ASBE No. 2 — Long-term equity investments" which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment is also calculated in accordance with the aforementioned principle.

Derecognition of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Accounts Receivable

The Group reviews the carrying value of its account receivables at the end of each reporting period and recognizes provision for impairment, being the difference between the asset's carrying amount and the present value of estimated future cash flows, in the current profit or loss if there is objective evidence of impairment.

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

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

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

11. Inventories

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

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

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for impairment of inventories is made and recognized as expenses when the net realizable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

Net realizable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates, as well as equity investments in investees over the Company does not exercise control, common control or significant influence which are not quoted in an active market and the fair value of which cannot be reliably measured.

Long-term equity investments were recorded at initial investment cost on acquisition. The initial investment cost of long-term equity investments derived from business combination through the merger of companies under the common control is measured as the share of the carrying value of the owner's equity of the acquiree. The initial investment cost of long-term equity investments derived from business combination through the merger of companies not under the common control is measured at the acquisition costs. The initial investment cost of long-term equity investments acquired other than through business combination is determined in the following manner: where the acquisition is made by cash payment, the initial investment cost is measured at the actual cash payment plus expenses directly related to the acquisition of the long-term investment, tax and other necessary expenses. Where equity securities are issued as consideration, the initial investment cost is measured at the fair value of the equity securities. Where the acquisition is funded by investors, the initial investment cost is measured at the value stipulated in the investment contract or agreement, unless the value so agreed is deemed unfair.

The cost method is used when the Group does not jointly control or has significant influence over the investee, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values. In the financial statements of the Company, the cost method is used for long-term equity investments in investees over which the Company exercises control.

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

The equity method is used to account for long-term equity investments when the Company can jointly control or has significant influence over the invested entity. Joint control means sharing control over certain economic activities pursuant to contractual agreements and exists only if significant financial and operational decisions relating to such economic activities require unanimous approval of investing parties sharing such control. Significant control means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period, and the cost of long-term equity investment is adjusted accordingly.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognized and the carrying amount of the long-term equity investment is adjusted to reflect the Group's share of the investee's net profit or loss. When recognizing the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date and in accordance with the Group's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from inter-transactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be wholly recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity. Upon the disposal of such investment, it will be transferred to profit and loss for the current period on a proportionate basis.

On disposal of the long-term equity investments, the difference between book value and market price is recognized in profit or loss for the current period. Long-term equity investments accounted for under the equity method and recognised in the shareholders' equity shall be transferred to profit or loss for the current period on a proportionate basis upon disposal.

For details of impairment test methods and impairment provision methods for long-term equity investments in subsidiaries, jointly-controlled entities and associates, please refer to Note II.24. For details of impairment test methods and impairment provision methods for other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II.9.

13. Fixed assets

Fixed assets are tangible assets held for manufacturing of goods, rendering of services, rental or administrative purposes that are used for more than one accounting year.

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

Fixed assets are initially recognized at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. Fixed assets (continued)

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows

	Useful life	Estimated residual value ratio	Annual depreciation rate
Buildings (excluding temporary plants)	30 years	5%	3.17%
Electronic equipment	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

For details of impairment test methods and impairment provision methods for fixed assets, please refer to Note II.24.

14. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including the necessary costs incurred for fixed assets before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

For details of impairment test methods and impairment provision methods for construction in progress, please refer to Note II.24.

15. Borrowing costs

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

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalization, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Borrowing costs (continued)

Capitalization of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

During capitalization, interest of each accounting period is recognized using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalization should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognized as expenses and recorded in the income statement until the construction resumes.

16. Intangible assets

The Group's intangible assets are initially measured at cost.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

	Estimated useful lives
Software	5 years
Technology know-how	10 years
Land use rights	50 years
Operating concession	20 years

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Intangible assets (continued)

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight line amortization method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortization method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

For details of impairment test methods and impairment provision methods for intangible assets, please refer to Note II.24.

17. Provisions

The Group recognizes as liability an obligation that is related to contingent matters and fulfils all the following criteria:

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

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

(3) the obligation could be reliably measured.

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Share-based payments

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

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

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the instrument granted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will flow to the Group, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

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

Construction contracts

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

Interest income

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Government grants

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

21. Income tax

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

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognizes deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1) Where the 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;

(2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(1) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

22. Leases

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

As lessee of operating leases

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Impairment of assets

The Group assesses impairment of assets other than inventories, deferred tax assets, financial assets and long-term equity investments under cost accounting which are not quoted in an active market and whose fair value cannot be reliably measured, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

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

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

Previously recognised impairment losses are not reversed in subsequent periods.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Employee benefits

Employee benefits represent all kinds of benefits (other than share-based payments) and other relevant expenditures incurred by the Group in exchange for service rendered by employees. During the accounting period when employees provide services, employee benefits payable is recognized as a liability. Items which expire longer than one year after the balance sheet date are measured at present value if the discounting impact is significant.

Defined contribution pension scheme

Employees of the Group participated in contribution pension scheme managed by the local government, including pension scheme, medical insurance, unemployment insurance and housing fund. The contribution costs are charged as asset cost or to current profit or loss when incurred.

Defined benefits pension scheme

The Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits pension scheme is actuarially determined and recognized over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees. The Group has not held any plan assets since the commencement of the defined benefits pension scheme, therefore it is not required to make any forecast on asset return.

25. Significant accounting judgements and estimates

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

Judgements

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

Revenue recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customization and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition (continued)

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

1) whether the delivered item has value to the customer on a stand alone basis;

2) whether there is objective and reliable evidence of the fair value of the undelivered item(s); and

3) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether fair value can be established on undelivered items and/or whether delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

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

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue recognition (continued)

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the ASBE No. 15 *Construction Contract*, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognized, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognized under ASBE No. 14 *Revenue*, revenue is recognized provided that: it is probable that the economic benefits of the income will flow to the Group; the amount can be reliably measured; the Group has transferred the principal risks and rewards of ownership to the buyer and has not retained ongoing management and effective control usually associated with ownership; and relevant costs incurred or to be incurred can be reliably measured.

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

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

Deferred tax liabilities arising from dividend distribution

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Significant accounting judgements and estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

Impairment of fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognized when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

Impairment of financial assets

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognized only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

Equity settled share expense

The estimated cost of the share incentive scheme is recognized in income statements based on estimation of various assumptions, including that in relation to the turnover rate of respective participants under the scheme. In situation that the actual turnover rate is less than the management estimation, such cost would be higher.

Depreciation and amortization

The Group depreciates items of fixed assets on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Development expenses

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

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilize these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit as well as applicable tax rate in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognized.

III. TAXATION

1. Principal tax items and tax rates

Value-added tax	—	Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17% after deducting the current balance of tax credit available for offsetting.
Business tax	—	In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income

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III. TAXATION (continued)

2. Tax concession and approval documents

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

Shenzhen Zhongxing Software Company Limited, an Important Software Enterprise under the National Planning Layout in 2009, is subject to an enterprise income tax rate of 10% for the current year.

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

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

Shenzhen Zhongxing ICT Company Limited was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian Bei An (2009) No. 383 issued by the State Tax Bureau of Nanshan District, Shenzhen. The current year is its first profitable year and it was exempted from enterprise income tax.

Shenzhen Zhongxing Netview Technology Company Limited was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian (2005) No. 0217 issued by the State Tax Bureau of Nanshan District, Shenzhen. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 20% is applicable.

Shenzhen Special Equipment Company Limited was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian (2006) No. 0002 issued by the State Tax Bureau of Nanshan District, Shenzhen. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 20% is applicable.

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

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

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

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III. TAXATION (continued)

2. Tax concession and approval documents (continued)

Shanghai Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Pu Shui Shi Wu Suo Jian (2007) No. 301 issued by the State Tax Bureau of Pudong New Area, Shanghai. The current year is its third profitable year and a 50% reduction in the enterprise income tax rate of 20% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010.

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

ZTEsoft Technology Company Limited, an Important Software Enterprise under the National Planning Layout in 2009, is subject to an enterprise income tax rate of 10% for the current year.

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

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

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

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IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT

1. Subsidiaries

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

Name of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at year-end	Balance of other items effectively representing net investment	Percentage of shareholding (%) direct	Percentage of shareholding (%) indirect	Percentage of voting rights (%)	Whether statements are consolidated	Minority interests	Setoff of gain/loss attributable to minority interests
Subsidiaries acquired by way of incorporation or investment														
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB50 million	Software development	75250847-2	RMB49 million	–	73%	25%	98%	Yes	70,501	–
ZTE (H.K.) Limited	Hong Kong	Nil	Information technology	HK$500 million	General services	Nil	HKD500 million	–	100%	–	100%	Yes	–	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Shi Lirong	Telecommunication services	RMB50 million	Communications engineering and technical services	76199710-8	RMB50 million	–	90%	10%	100%	Yes	1,527	–
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB50 million	Production of electronic products and accessories	279285671	RMB45 million	–	90%	–	90%	Yes	245,197	–
ZTE Telecom India Private Limited	India	Huang Dabin	Telecommunications and related equipment manufacturing	INR1,250 million	Production of telecommunication products and services	Nil	USD28.80 million	RMB246.46 million	100%	–	100%	Yes	–	–
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB200 million	Systems project outsourcing	74537900-0	RMB45.04 million	–	76%	–	76%	Yes	136,225	–
Shenzhen Changfei Investment Company Limited	Shenzhen	Peng Ran	Investment	RMB30 million	Industrial investment	75860475-6	RMB15.30 million	–	51%	–	51%	Yes	140,312	–
Shenzhen Zhongxing Mobile Technology Company Limited	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB39.583 million	Production and sale of telecommunication products	73205874-2	RMB31.67 million	–	80%	–	80%	Yes	68,675	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10 million	Development and sales of opto electronic products	71869554-2	RMB6.50 million	–	65%	–	65%	Yes	46,263	–
Anhui Wantong Postal and Telecom Company Limited	Hefei	Zeng Xuezhong	Telecommunications and related equipment manufacturing	RMB31.10 million	Manufacturing and sales of telecommunications wires	14897470-9	RMB15.70 million	–	51%	–	51%	Yes	31,796	–
ZTE Integration Telecom Limited	Shenzhen	Zhao Xianming	Telecommunications and related equipment manufacturing	RMB55 million	R&D and sales of digital integrated system products	74886449-0	RMB44 million	–	75%	5%	80%	Yes	13,459	–
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication service	RMB10 million	Production and sale of telecommunication products	76223980-0	RMB5.10 million	–	51%	–	51%	Yes	29,343	–
Xi'an Zhongxing Software Company Limited	Xi'an	Hou Weigui	Telecommunications and related equipment manufacturing	RMB600 million	Software development for telecommunication services	68385252-7	RMB600 million	–	100%	–	100%	Yes	–	–
ZTE (Hangzhou) Company Limited	Hangzhou	He Shiyou	Telecommunications and related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB30 million	Design and sales of corporate management hard/ software products	68537795-0	RMB24 million	–	80%	–	80%	Yes	13,325	–

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

2. Changes in the scope of consolidation

The Group deregistered subsidiary ZIMAX (Cayman) Holding Limited during the current year. The subsidiary was mainly engaged in investment and establishment of industrial operations. Prior to deregistration, ZIMAX had no assets and liabilities other than cash and balances with the Company, and was not engaged in other ordinary business activities. Upon the decision of the Board of Directors of the subsidiary, ZIMAX was deregistered on 25 May 2009.

Subsidiaries established during 2009 are as follows: tier-one subsidiaries including 中興國通通訊裝備技術（北京）有限公司, Shenzhen Zhongxing ICT Co., Ltd. (深圳中興網信科技有限公司), 中興通訊（杭州）有限責任公司 and 深圳市中興和泰酒店投資管理有限公司; and tier-two subsidiaries including 南京中興力維軟件有限公司, 南京中興特種系統有限責任公司, 南京中興新軟件有限責任公司, 三亞中興軟件有限責任公司, 重慶中興軟件有限責任公司, 北京市中興百納有限責任公司, 濟南中興通訊技術有限責任公司 and 深圳市中興九歌信息技術有限公司.

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

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

	Average rate		Year-end rate	
	2009	2008	**2009**	2008
USD	**6.8314**	6.9253	**6.8282**	6.8346
EUR	**9.5399**	10.2441	**9.7971**	9.6590
HKD	**0.8813**	0.8897	**0.8805**	0.8819
GBP	**10.6955**	12.8099	**10.9780**	9.8798
INR	**0.1417**	0.1629	**0.1456**	0.1402
BRL	**3.3890**	3.9104	**3.9032**	2.8944
PKR	**0.0843**	0.1009	**0.0811**	0.0864
IDR	**0.0006**	0.0007	**0.0007**	0.0006

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

1. Cash

		2009			2008		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash on hand	RMB	**308**	**1.0000**	**308**	656	1.0000	656
	USD	**980**	**6.8282**	**6,692**	1,343	6.8346	9,179
	SAR	**671**	**1.8200**	**1,221**	1,250	1.8193	2,274
	EUR	**27**	**9.7971**	**265**	210	9.6590	2,028
	MRO	**8,922**	**0.0254**	**227**	12,735	0.0268	341
	DZD	**2,210**	**0.0918**	**203**	1,875	0.0963	181
	INR	**1,504**	**0.1456**	**219**	1,262	0.1402	177
	THB	**226**	**0.2041**	**46**	454	0.1958	89
	HKD	**19**	**0.8805**	**17**	37	0.8819	33
	Others			**1,990**			341
	Sub-total			**11,188**			15,299

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

1. Cash (continued)

		2009			2008		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	**5,692,778**	**1.0000**	**5,692,778**	6,334,308	1.0000	6,334,308
	USD	**835,116**	**6.8282**	**5,702,339**	495,904	6.8346	3,389,305
	HKD	**71,479**	**0.8805**	**62,937**	27,651	0.8819	24,385
	BRL	**59,475**	**3.9032**	**232,143**	21,340	2.8944	61,767
	PKR	**772,855**	**0.0811**	**62,679**	2,166,164	0.0864	187,157
	EGP	**26,700**	**1.2370**	**33,028**	28,296	1.2382	35,036
	IDR	**196,945,894**	**0.0007**	**137,862**	225,974,462	0.0006	135,585
	EUR	**129,183**	**9.7971**	**1,265,619**	88,884	9.6590	858,531
	DZD	**1,012,570**	**0.0918**	**92,954**	1,030,179	0.0963	99,206
	MYR	**7,828**	**1.9939**	**15,608**	5,962	1.9730	11,763
	VEF	**93,734**	**3.1759**	**297,690**	6,118	3.1789	19,448
	ETB	**117,649**	**0.5295**	**62,295**	213,416	0.6835	145,870
	INR	**855,127**	**0.1456**	**124,506**	1,262	0.1402	177
	Others			**282,196**			26,323
	Sub-total			**14,064,634**			11,328,861

		2009			2008		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	**165,444**	**1.0000**	**165,444**	132,184	1.0000	132,184
	USD	**36,013**	**6.8282**	**245,905**	—	—	—
	Others			**9,637**			4,062
	Sub-total			**420,986**			136,246
	Total			**14,496,808**			11,480,406

As at 31 December 2009, the Group's cash subject to ownership restriction amounted to RMB420,986,000 (31 December 2008: RMB136,246,000), including acceptance bill deposits of RMB11,867,000 (31 December 2008: RMB131,520,000), letter of credit deposits of RMB163,214,000 (31 December 2008: RMB4,726,000) and risk compensation fund to be released within one year of RMB245,905,000 (31 December 2008: Nil).

Under the loan agreements or factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2009, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB854,264,000 (31 December 2008: Nil). Risk compensation fund to be released within one year amounting to RMB245,905,000 was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB608,359,000 was accounted for as other non-current assets.

As at 31 December 2009, the Group's overseas currency deposits amounted to RMB2,165,395,000 (31 December 2008: RMB1,535,102,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate.

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

2. Derivative financial liabilities

	2009	2008
Derivative financial liabilities	—	12,560

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

3. Bills receivable

	2009	2008
Commercial acceptance bills	**448,090**	1,207,722
Bank acceptance bills	**331,022**	370,751
	779,112	1,578,473

As at 31 December 2009, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2008: Nil). As at 31 December 2009, the top five bills in terms of monetary amount which had been endorsed to other parties but not yet due as at the end of the year amounted to RMB2,799,000 (31 December 2008: RMB6,075,000).

As at 31 December 2009, bills with a carrying value of RMB17,095,000 were discounted for short-term loans (31 December 2008: Nil). As at 31 December 2009, there were no bills pledged for short-term loans (31 December 2008: Nil).

As at 31 December 2009, bills receivable included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB850,000 (31 December 2008: RMB3,800,000). Please refer to Note VI. "The relationships and transactions with related parties".

4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0–90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

	2009			2008		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**7,028,076**	**1.0000**	**7,028,076**	3,492,649	1.0000	3,492,649
USD	**771,881**	**6.8282**	**5,270,558**	599,951	6.8346	4,100,425
EUR	**114,092**	**9.7971**	**1,117,770**	119,375	9.6590	1,153,043
PKR	**1,461,344**	**0.0811**	**118,515**	3,572,039	0.0864	308,624
INR	**6,274,615**	**0.1456**	**913,584**	3,360,114	0.1402	471,088
Others			**870,712**			446,666
			15,319,215			9,972,495

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

4. Trade receivables (continued)

Aging analysis of trade receivables was as follows:

	2009	2008
Within 1 year	**15,048,672**	9,915,769
1 to 2 years	**1,124,356**	1,016,036
2 to 3 years	**558,473**	265,763
Over 3 years	**330,491**	301,657
	17,061,992	11,499,225
Less: bad debt provision for trade receivables	**1,742,777**	1,526,730
	15,319,215	9,972,495

	2009				2008			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant	**6,750,067**	**40**	**985,333**	**15**	5,792,559	50	915,130	16
Insignificant balances	**10,311,925**	**60**	**757,444**	**7**	5,706,666	50	611,600	11
	17,061,992	**100**	**1,742,777**		11,499,225	100	1,526,730	

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

As at 31 December 2009, bad debt provisions for trade receivables which were individually significant or which were not individually significant but were nevertheless individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	245,292	245,292	100%	Aging receivables of which recovery is highly unlikely
Overseas carriers 2	200,198	200,198	100%	Aging receivables of which recovery is highly unlikely
Overseas carriers 3	81,389	81,389	100%	Aging receivables of which recovery is highly unlikely
Others	55,393	55,393	100%	
	582,272	582,272		

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

4. Trade receivables (continued)

As at 31 December 2008, bad debt provisions for trade receivables which were individually significant or which were not individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	245,292	245,292	100%	Aging receivables of which recovery is highly unlikely
Overseas carriers 2	200,198	200,198	100%	Aging receivables of which recovery is highly unlikely
Overseas carriers 3	221,789	150,753	68%	Partial recovery following bankruptcy of customer
Overseas carriers 4	81,389	81,389	100%	Aging receivables of which recovery is highly unlikely
Others	131,257	131,257	100%	
	879,925	808,889		

	2009	2008
Total trade receivables from top five accounts	**7,473,418**	3,454,485
As a percentage of total trade receivables	**43.80%**	30.04%

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group which had been overdue for 0 to 36 months.

As at 31 December 2009, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB13,385,000 (31 December 2008: RMB17,748,000), accounting for 0.08% (31 December 2008: 0.15%) of the total amount of trade receivables. Please refer to Note VI. "The relationships and transactions with related parties". No bad debt provision was being made in respect of the aforesaid due from shareholders or related parties holding 5% or more in the voting shares.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RMB2,870,221,000 (31 December 2008: RMB1,658,941,000)

As at 31 December 2009, trade receivables of the Group with a book value of RMB114,678,000 (31 December 2008: RMB868,794,000) were subject to ownership restriction as they were pledged as security for short-term loans.

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

5. Other receivables

Aging analysis of other receivables was as follows:

	2009	2008
Within 1 year	**793,213**	662,704
1 to 2 years	**200,422**	66,421
2 to 3 years	**61,830**	19,852
Over 3 years	**4,364**	8,870
	1,059,829	757,847
Less: Bad debt provision for other receivables	**—**	—
	1,059,829	757,847

	2009	2008
Total other receivables from top five accounts	**69,118**	192,827
As a percentage of total amounts of other receivables	**6.52%**	25.44%

The above other receivables from top five accounts represent other receivables from third-party entities independent from the Group which had been overdue for 0 to 36 months.

As at 31 December 2009, RMB8,607,000 (31 December 2008: Nil) in the balance was other receivables from shareholders or related parties holding 5% or more in the voting shares. Please refer to Note VI. "The relationships and transactions with related parties".

6. Prepayments

Aging analysis of prepayments was as follows:

	2009		2008	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	**355,422**	**100%**	355,887	100%

	2009	2008
Total prepayments from top five accounts	**78,056**	89,311
As a percentage of total amounts of prepayments	**21.96%**	25.10%

As at 31 December 2009, RMB157,000 (31 December 2008: RMB1,288,000) in the balance was prepayments made to shareholders or related parties holding 5% or more in the voting shares. Please refer to Note VI. "The relationships and transactions with related parties".

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

7. Inventories

	2009			2008		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Raw materials	**2,819,361**	**286,356**	**2,533,005**	2,166,948	151,531	2,015,417
Materials under sub-contract processing	**78,003**	**8,177**	**69,826**	89,550	16,243	73,347
Work-in-progress	**1,200,003**	**18,628**	**1,181,375**	745,131	—	745,131
Finished goods	**1,977,595**	**177,648**	**1,799,947**	2,337,993	302,390	2,035,603
Dispatch of goods	**4,001,837**	**261,190**	**3,740,647**	4,108,578	—	4,108,578
	10,076,799	**751,999**	**9,324,800**	9,448,200	470,164	8,978,036

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

8. Amount due from/to customers for contract works

	2009	2008
Amount due from customers for contract works	**11,388,496**	7,894,010
Amount due to customers for contract works	**(2,519,706)**	(2,965,582)
	8,868,790	4,928,428
Contract costs incurred plus recognized profits less recognized losses to date	**45,189,806**	32,639,309
Less: estimated loss	**625,992**	620,353
progress billings	**35,695,024**	27,090,528
	8,868,790	4,928,428

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

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

9. Available-for-sale financial assets

	2009	2008
Available-for-sale equity instruments	**253,760**	251,148

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
深圳市創新投資集團有限公司	**5,000**	**1,250**	**—**	**6,250**
北京中視聯數字系統有限公司	**3,240**	**—**	**—**	**3,240**
中移鼎訊通信股份有限公司	**32,000**	**—**	**—**	**32,000**
Beijing Zhongxing Intelligent Transportation Systems Limited	**1,024**	**—**	**—**	**1,024**
杭州中興發展有限公司	**2,000**	**—**	**—**	**2,000**
貴州艾瑪特信息超市項目開發有限公司	**200**	**200**	**—**	**400**
航天科技投資控股有限公司	**201,734**	**—**	**—**	**201,734**
網經科技(開曼)有限公司	**3,430**	**—**	**—**	**3,430**
VENE ZOLANA TELECOMMUNICATION E.S.C.A	**2,520**	**—**	**—**	**2,520**
The PTIC-ZTE Telecom Technology Joint Stock Company	**—**	**1,162**	**—**	**1,162**
	251,148	**2,612**	**—**	**253,760**

2008

	Opening balance	Increase during the year	Decrease during the year	Closing balance
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
中移鼎訊通信股份有限公司	32,000	—	—	32,000
Beijing Zhongxing Intelligent Transportation Systems Limited	1,024	—	—	1,024
杭州中興發展有限公司	2,000	—	—	2,000
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
航天科技投資控股有限公司	—	201,734	—	201,734
網經科技(開曼)有限公司	—	3,430	—	3,430
VENE ZOLANA TELECOMMUNICATION E.S.C.A	—	2,520	—	2,520
	43,464	207,684	—	251,148

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

10. Long-term receivables

	2009	2008
Installment payments for the provision of telecommunication system construction projects	**495,919**	787,532
Less: Bad debt provision for long-term receivables	**112,170**	175,524
	383,749	612,008

Please refer to Note V.17 for details of movements in bad debt provision for long-term receivables.

Transfer of trade receivables not qualified for derecognition is separately reflected in "factored long-term trade receivables" and "Bank advances on factored trade receivables". The amount as at the end of the year under review was RMB2,968,629,000 (31 December 2008: RMB753,568,000).

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of US$1.5 billion. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. Two government strategic banks (2008: One) in the PRC have agreed to factor these promissory notes pursuant to receivables purchase agreements (the "Agreement"). During the financing period, the banks will charge interest at LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2009, under the above arrangement, accounts receivable due from the customer amounted to RMB6,082,427,000 (2008: RMB3,542,011,000) among which RMB4,865,942,000 (2008: RMB2,833,609,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,216,485,000 (2008: RMB708,402,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 31 December 2009 amounted to RMB328,920,000 (31 December 2008: RMB120,000,000), comprising RMB73,868,000 (31 December 2008: RMB120,000,000) due within one year and classified as other payables (see Note V.25) and RMB255,052,000 (31 December 2008: Nil) due after one year and classified as other non-current liabilities (see Note V.31).

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

11. Investments in jointly-controlled entities and associates

2009

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital
Jointly-controlled entities					
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	IT industry	CYP600,000
Associates					
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Machinery and electronic equipment wholesale trade	RMB6,000,000
Nationz Technologies Inc.	Company limited by shares	China	Liu Jinping	Computer and related equipment manufacturing industry	RMB81,600,000
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Computer and related equipment manufacturing industry	USD3,000,000
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB11,000,000
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000
深圳市聚飛光電有限公司	Company with limited liability	China	Xing Qibin	Machinery equipment	RMB20,000,000
中興軟件技術(南昌)有限公司	Company with limited liability	China	Hong Bo	Computer Application Services	RMB15,000,000
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HK$30,000,000
深圳市鼎力網絡有限公司	Company with limited liability	China	Zhu Weimin	Communications equipment manufacturing	RMB10,000,000
WANAAG Communications Limited	Company with limited liability	Hong Kong	Zhou Susu	Communications services	USD100,000
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy service	RMB1,290,000,000
思卓中興(杭州)科技有限公司	Company with limited liability	China	David Khidasheli	Sales and R&D of communications equipment	USD1,000,000
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer Application Services	RMB1,000,000
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Sales and R&D of communications equipment	RMB5,000,000
Shenzhen Hongde Battery Company Limited	Company with limited liability	China	Hua Wei	Communications equipment manufacturing	RMB15,000,000
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000

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

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

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the year	Net profit Amount for the year
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
Associates					
Shenzhen Fudekang Electronics Company Limited	35,454	27,239	8,215	55,659	2,851
Nationz Technologies Inc.	341,407	119,556	221,851	465,848	116,944
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company, Limited	103,212	71,312	31,900	185,499	4,813
Shenzhen Zhongxing Xinyu FPC Company Limited	105,240	72,097	33,143	109,464	6,275
Shenzhen Weigao Semiconductor Company Limited	19,540	14,395	5,145	33,021	273
Shenzhen Decang Technology Company Limited	161,771	101,051	60,720	223,588	10,783
深圳市聚飛光電有限公司	196,622	68,524	128,098	179,236	46,267
中興軟件技術(南昌)有限公司	34,477	96,406	(61,929)	8,035	(51,614)
Shenzhen Smart Electronics Company Limited	40,717	10,263	30,454	97,651	(9,572)
深圳市鼎力網絡有限公司	6,956	563	6,393	1,678	(2,055)
WANAAG Communications Limited	1,151	2,130	(979)	—	(267)
Zhongxing Energy Company Limited	1,204,213	3,102	1,201,111	9	(65,548)
思卓中興(杭州)科技有限公司	5,734	1	5,733	—	(925)
北京中鼎盛安科技有限公司	326	1,060	(734)	—	(895)
上海中興群力信息科技有限公司	5,009	15	4,994	—	(5)
Shenzhen Hongde Battery Company Limited	93,479	66,410	27,069	108,174	12,070
上海泰捷通信技術有限公司	27,510	17,429	10,081	7,869	81

The former ZTE IC Design Company Limited underwent a change in shareholding during the year and was renamed Nationz Technologies Inc. ("Nationz Technologies"). ZTE's shareholding in this company was changed from 29.4% to 26.67%.

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

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

2008

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital
Jointly-controlled entities					
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Wei Zaisheng	IT industry	CYP600,000
Associates					
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Machinery and electronic equipment wholesale trade	RMB6,000,000
Nationz Technologies Inc.	Company limited by shares	China	Liu Jinping	Computer and related equipment manufacturing industry	RMB74,000,000
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Computer and related equipment manufacturing industry	USD3,000,000
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB11,000,000
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000
深圳市聚飛光電有限公司	Company with limited liability	China	Xing Qibin	Machinery equipment	RMB20,000,000
中興軟件技術(南昌)有限公司	Company with limited liability	China	Hong Bo	Computer Application Services	RMB15,000,000
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000
深圳市鼎力網絡有限公司	Company with limited liability	China	Zhu Weimin	Communications equipment manufacturing	RMB10,000,000
WANAAG Communications Limited	Company with limited liability	China	Zhou Susu	Communications services	USD100,000
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy service	RMB1,290,000,000
思卓中興(杭州)科技有限公司	Company with limited liability	China	David Khidasheli	Sales and R&D of communications equipment	USD1,000,000
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer Application Services	RMB1,000,000
Nanchang Xingfei Technology Company Limited	Company with limited liability	China	Zhu Weimin	Communications equipment manufacturing	RMB15,000,000

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

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

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the year	Net profit Amount for the year
Jointly-controlled entities					
Bestel Communications Ltd	4,606	96	4,510	—	—
Associates					
Shenzhen Fudekang Electronics Company Limited	45,016	32,269	12,747	57,491	6,746
Nationz Technologies Inc.	166,900	81,699	85,201	218,737	21,979
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	97,603	68,695	28,908	239,657	4,724
Shenzhen Zhongxing Xinyu FPC Company Limited	98,937	72,206	26,731	97,777	6,351
Shenzhen Weigao Semiconductor Company Limited	16,579	11,706	4,873	62,227	(1,562)
Shenzhen Decang Technology Company Limited	100,426	48,989	51,437	186,970	6,441
深圳市聚飛光電有限公司	108,632	40,122	68,510	117,728	34,864
中興軟件技術(南昌)有限公司	68,467	78,782	(10,315)	37,118	(32)
Shenzhen Smart Electronics Company Limited	59,865	10,839	49,026	220,871	18,267
深圳市鼎力網絡有限公司	8,765	318	8,447	4,224	274
WANAAG Communications Limited	1,475	2,308	(833)	890	103
Zhongxing Energy Company Limited	242,246	3,587	238,659	—	(19,331)
北京中鼎盛安科技有限公司	311	151	160	—	(839)
Nanchang Xingfei Technology Company Limited	4,500	—	4,500	—	—
思卓中興(杭州)科技有限公司	6,921	270	6,651	—	(180)

12. Long-term equity investments

		2009	2008
Equity method			
Jointly-controlled entities	(1)	**2,255**	2,255
Associates	(2)	**438,027**	166,178
		440,282	168,433

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

12. Long-term equity investments (continued)

2009

(1) Jointly-controlled entities

	Initial investment	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Bestel Communications Ltd.	2,050	2,255	–	2,255	50%	50%	–
		2,255	–	2,255			–

(2) Associates

	Initial investment	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Fudekang Electronics Company Limited	1,800	3,824	(1,360)	2,464	30%	30%	900
Nationz Technologies Inc.	30,000	27,457	33,510	60,967	26.67%	26.67%	–
KAZNURTEL Limited Liability Company	1,012	2,477	–	2,477	49%	49%	–
Wuxi Kaier Technology Company Limited	3,500	9,115	1,486	10,601	30.88%	30.88%	–
Shenzhen Zhongxing Xinyu FPC Company Limited	2,500	6,074	1,457	7,531	22.73%	22.73%	–
Shenzhen Weigao Semiconductor Company Limited	4,000	1,949	109	2,058	40%	40%	–
Shenzhen Decang Technology Company Limited	1,000	15,428	2,788	18,216	30%	30%	450
深圳市聚飛光電有限公司	4,500	15,313	12,381	27,694	22.5%	22.5%	–
中興軟件技術(南昌)有限公司	4,500	3,398	(3,398)	–	30%	30%	–
Shenzhen Smart Electronics Company Limited	3,335	14,673	(5,537)	9,136	30%	30%	2,700
深圳市鼎力網絡有限公司	3,500	2,957	(719)	2,238	35%	35%	–
WANAAG Communications Limited	351	139	–	139	45%	45%	–
Zhongxing Energy Company Limited	60,000	55,503	224,754	280,257	23.26%	23.26%	–
思卓中興(杭州)科技有限公司	3,380	3,292	(488)	2,804	49%	49%	–
北京中鼎盛安科技有限公司	490	79	(79)	–	49%	49%	–
Nanchang Xingfei Technology Company Limited	4,500	4,500	(4,500)	–	30%	30%	–
上海中興群力信息科技有限公司	2,000	–	1,998	1,998	40%	40%	–
Shenzhen Hongde Batteries Company Limited	3,000	–	5,414	5,414	20%	20%	–
上海泰捷通訊技術有限公司	4,000	–	4,033	4,033	40%	40%	–
		166,178	271,849	438,027			4,050

As at 31 December 2009, accumulated investment losses amounting to RMB12,086,000 (2008: Nil) and RMB360,000 (2008: Nil) of 中興軟件技術(南昌)有限公司 and 北京中鼎盛安科技有限公司, respectively, were not recognized because provision for impairment in long-term investment had ceased upon zero balance.

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

12. Long-term equity investments (continued)

2008

(1) Jointly-controlled entities

	Initial investment	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Bestel Communications Limited	2,050	2,255	—	2,255	50%	50%	—
		2,255	—	2,255			—

(2) Associates

	Initial investment	Opening balance	Addition/ reduction during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Fudekang Electronics Company Limited	1,800	2,728	1,096	3,824	30%	30%	—
Nationz Technologies Inc.	30,000	17,799	9,658	27,457	26.67%	26.67%	—
KAZNURTEL Limited Liability Company	1,012	2,477	—	2,477	49%	49%	—
Wuxi Kaier Technology Company, Limited	3,500	7,656	1,459	9,115	30.88%	30.88%	—
Shenzhen Zhongxing Xinyu FPC Company, Limited	2,500	6,201	(127)	6,074	22.73%	22.73%	909
Shenzhen Weigao Semiconductor Company, Limited	4,000	2,574	(625)	1,949	40%	40%	—
Shenzhen Decang Technology Company Limited	1,000	13,219	2,209	15,428	30%	30%	—
深圳市聚飛光電有限公司	4,500	8,594	6,719	15,313	22.5%	22.5%	1,125
中興軟件技術(南昌)有限公司	4,500	3,408	(10)	3,398	30%	30%	—
Shenzhen Smart Electronics Company, Limited	3,335	7,154	7,519	14,673	30%	30%	—
深圳市鼎力網絡有限公司	3,500	2,861	96	2,957	35%	35%	—
WANAAG Communications Limited	351	93	46	139	45%	45%	—
Zhongxing Energy Company Limited	60,000	60,000	(4,497)	55,503	23.26%	23.26%	—
思卓中興(杭州)科技有限公司	3,380	—	3,292	3,292	49%	49%	—
北京中鼎盛安科技有限公司	490	—	79	79	49%	49%	—
Nanchang Xingfei Technology Company Limited	4,500	—	4,500	4,500	30%	30%	—
		134,764	31,414	166,178			2,034

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

13. Fixed Assets

2009

	Opening balance	Additions during the year	Reductions during the year	Exchange rate adjustments	Closing balance
Cost					
Buildings	2,066,589	423,136	(77,469)	(169)	2,412,087
Electronic equipment	2,142,344	507,192	(156,480)	846	2,493,902
Machinery equipment	1,963,786	468,438	(70,447)	(3,989)	2,357,788
Vehicles	281,730	50,635	(17,344)	700	315,721
Other equipment	34,340	14,246	(2,371)	1,603	47,818
	6,488,789	1,463,647	(324,111)	(1,009)	7,627,316
Accumulated depreciation					
Buildings	312,506	74,920	(34,225)	(18)	353,183
Electronic equipment	1,043,119	389,518	(145,480)	558	1,287,715
Machinery equipment	820,718	256,331	(42,791)	(1,931)	1,032,327
Vehicles	102,951	32,745	(11,710)	129	124,115
Other equipment	19,417	9,324	(916)	616	28,441
	2,298,711	762,838	(235,122)	(646)	2,825,781
Net book value					
Buildings	1,754,083	348,216	(43,244)	(151)	2,058,904
Electronic equipment	1,099,225	117,674	(11,000)	288	1,206,187
Machinery equipment	1,143,068	212,107	(27,656)	(2,058)	1,325,461
Vehicles	178,779	17,890	(5,634)	571	191,606
Other equipment	14,923	4,922	(1,455)	987	19,377
	4,190,078	700,809	(88,989)	(363)	4,801,535
Provision for impairment					
Buildings	7,708	—	—	—	7,708
Electronic equipment	77,819	—	—	—	77,819
Machinery equipment	1,475	—	—	—	1,475
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	87,002	—	—	—	87,002
Net Value					
Buildings	1,746,375	348,216	(43,244)	(151)	2,051,196
Electronic equipment	1,021,406	117,674	(11,000)	288	1,128,368
Machinery equipment	1,141,593	212,107	(27,656)	(2,058)	1,323,986
Vehicles	178,779	17,890	(5,634)	571	191,606
Other equipment	14,923	4,922	(1,455)	987	19,377
	4,103,076	700,809	(88,989)	(363)	4,714,533

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

13. Fixed Assets (continued)

2008

	Opening balance	Additions during the year	Reductions during the year	Exchange rate adjustments	Closing balance
Cost					
Buildings	1,291,681	781,173	(2,841)	(3,424)	2,066,589
Electronic equipment	1,945,474	343,639	(86,119)	(60,650)	2,142,344
Machinery equipment	1,512,304	619,826	(149,153)	(19,191)	1,963,786
Vehicles	262,115	52,957	(26,719)	(6,623)	281,730
Other equipment	37,745	11,916	(6,049)	(9,272)	34,340
	5,049,319	1,809,511	(270,881)	(99,160)	6,488,789
Accumulated depreciation					
Buildings	250,459	63,491	(1,017)	(427)	312,506
Electronic equipment	922,884	205,868	(74,347)	(11,286)	1,043,119
Machinery equipment	642,335	282,619	(96,277)	(7,959)	820,718
Vehicles	93,171	23,762	(12,443)	(1,539)	102,951
Other equipment	15,405	8,949	(2,046)	(2,891)	19,417
	1,924,254	584,689	(186,130)	(24,102)	2,298,711
Net book value					
Buildings	1,041,222	717,682	(1,824)	(2,997)	1,754,083
Electronic equipment	1,022,590	137,771	(11,772)	(49,364)	1,099,225
Machinery equipment	869,969	337,207	(52,876)	(11,232)	1,143,068
Vehicles	168,944	29,195	(14,276)	(5,084)	178,779
Other equipment	22,340	2,967	(4,003)	(6,381)	14,923
	3,125,065	1,224,822	(84,751)	(75,058)	4,190,078
Provision for impairment					
Buildings	7,708	—	—	—	7,708
Electronic equipment	77,819	—	—	—	77,819
Machinery equipment	1,475	—	—	—	1,475
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	87,002	—	—	—	87,002
Net value					
Buildings	1,033,514	717,682	(1,824)	(2,997)	1,746,375
Electronic equipment	944,771	137,771	(11,772)	(49,364)	1,021,406
Machinery equipment	868,494	337,207	(52,876)	(11,232)	1,141,593
Vehicles	168,944	29,195	(14,276)	(5,084)	178,779
Other equipment	22,340	2,967	(4,003)	(6,381)	14,923
	3,038,063	1,224,822	(84,751)	(75,058)	4,103,076

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

13. Fixed Assets (continued)

Depreciation for 2009 amounted to RMB762,838,000 (2008: RMB584,689,000). Transfer from construction in progress to fixed assets amounted to RMB521,624,000 (2008: RMB1,029,596,000) at cost.

As at 31 December 2009, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2008: RMB92,766,000). Houses and buildings with a book value of RMB7,490,000 (31 December 2008: RMB10,269,000) were under ownership restriction, comprising houses and buildings with a book value of RMB3,990,000 pledged by subsidiary Anhui Wantong Posts and Telecommunications Company Limited and houses and buildings with a book value of RMB3,500,000 pledged by subsidiary Xi'an Zhongxing Jing Cheng Communication Company Limited for short-term loans. As at 31 December 2009, machinery and equipment with a book value of RMB417,508,000 (31 December 2008: RMB465,856,000) was under ownership restriction, comprising machinery and equipment with a book value of RMB337,186,000 (31 December 2008: RMB420,734,000) pledged by the subsidiary Congo-Chine Telecom S.A.R.L and machinery and equipment with a book value of RMB80,322,000 (31 December 2008: RMB45,122,000) pledged by the subsidiary Closed Joint Stock Company TK Mobile for loans.

As at 31 December 2009, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2008: Nil).

As at 31 December 2009, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Nanjing and Shanghai in China with a net book value of approximately RMB1,442,206,000 (31 December 2008: RMB1,121,607,000).

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

14. Construction in progress

2009

	Budget	Opening balance	Additions during the year	Transferred to fixed assets	Closing balance	Source of funds	Project completion (%)/ progress
Liuxiandong ZTE Industrial Park Phase I	1,000,000	151,726	210,052	270,958	90,820	Internal resources	90%
R&D centre and training centre	Nil	139,974	154,874	—	294,848	Internal resources	
Xi'an Technology Park Phase II	Nil	22,450	94,970	—	117,420	Internal resources	
Equipment installation	Nil	446,142	268,777	197,970	516,949	Internal resources	
Staff quarters	Nil	793	212,663	—	213,456	Internal resources	
Others	Nil	56,001	95,937	52,696	99,242	Internal resources	
		817,086	1,037,273	521,624	1,332,735		

2008

	Budget	Opening balance	Additions during the year	Transferred to fixed assets	Closing balance	Source of funds	Project completion (%)/ progress
Liuxiandong ZTE Industrial Park Phase I	1,000,000	471,817	161,909	482,000	151,726	Internal resources	73.07%
R&D centre and training centre	Nil	316,286	73,688	250,000	139,974	Internal resources	
Xi'an Technology Park Phase II	Nil	—	22,450	—	22,450	Internal resources	
Equipment installation	Nil	108,130	621,588	283,576	446,142	Internal resources	
Others	Nil	34,857	35,957	14,020	56,794	Internal resources	
		931,090	915,592	1,029,596	817,086		

As at 31 December 2009, there was no capitalized interest amount in the balance of the construction in progress (31 December 2008: Nil).

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

15. Intangible assets

2009

	Opening balance	Additions during the year	Reductions during the year	Closing balance
Cost				
Software	337,632	24,566	(17,859)	344,339
Technology know-how	5,032	—	—	5,032
Land use rights	480,273	75,062	—	555,335
Operating concessions	94,530	—	(26)	94,504
	917,467	99,628	(17,885)	999,210
Accumulated amortisation				
Software	249,754	38,474	(17,808)	270,420
Technology know-how	1,454	714	—	2,168
Land use rights	1,821	32,441	—	34,262
Operating concessions	48,398	3,235	(2)	51,631
	301,427	74,864	(17,810)	358,481
Net book value				
Software	87,878	(13,908)	(51)	73,919
Technology know-how	3,578	(714)	—	2,864
Land use rights	478,452	42,621	—	521,073
Operating concessions	46,132	(3,235)	(24)	42,873
	616,040	24,764	(75)	640,729
Provision for impairment				
Software	12,884	—	—	12,884
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	7,750	—	—	7,750
	26,956	—	—	26,956
Book value				
Software	74,994	(13,908)	(51)	61,035
Technology know-how	3,578	(714)	—	2,864
Land use rights	472,130	42,621	—	514,751
Operating concessions	38,382	(3,235)	(24)	35,123
	589,084	24,764	(75)	613,773

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

15. Intangible assets (continued)

2008

	Opening balance	Additions during the year	Reductions during the year	Closing balance
Cost				
Software	363,946	27,761	(54,075)	337,632
Technology know-how	1,354	3,678	—	5,032
Land use rights	47,809	437,213	(4,749)	480,273
Operating concessions	98,619	—	(4,089)	94,530
	511,728	468,652	(62,913)	917,467
Accumulated amortisation				
Software	211,720	49,294	(11,260)	249,754
Technology know-how	624	830	—	1,454
Land use rights	1,426	395	—	1,821
Operating concessions	46,154	3,460	(1,216)	48,398
	259,924	53,979	(12,476)	301,427
Net book value				
Software	152,226	(21,533)	(42,815)	87,878
Technology know-how	730	2,848	—	3,578
Land use rights	46,383	436,818	(4,749)	478,452
Operating concessions	52,465	(3,460)	(2,873)	46,132
	251,804	414,673	(50,437)	616,040
Provision for impairment				
Software	12,884	—	—	12,884
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	7,750	—	—	7,750
	26,956	—	—	26,956
Book value				
Software	139,342	(21,533)	(42,815)	74,994
Technology know-how	730	2,848	—	3,578
Land use rights	40,061	436,818	(4,749)	472,130
Operating concessions	44,715	(3,460)	(2,873)	38,382
	224,848	414,673	(50,437)	589,084

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

15. Intangible assets (continued)

Amortisation of intangible assets in 2009 amounted to RMB74,864,000 (2008: RMB53,979,000).

At 31 December 2009, intangible assets with a book value of RMB4,140,000 (31 December 2008: RMB84,174,000) were subject to ownership restrction, representing land use rights with a book value of RMB4,140,000 (31 December 2008: nil) pledged as security for bank loans extended to Anhui Wantong Posts and Telecommunications Company Limited, a subsidiary of the Group.

As at 31 December 2009, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Xi'an in the PRC, with a net carrying value of approximately RMB293,917,000 (2008: RMB259,572,000).

Development costs are analysed as follows:

2009

	Opening balance	Additions during the year	Reductions during the year	Closing balance
Handsets	**96,246**	**92,850**	**21,424**	**167,672**
System products	**379,774**	**309,923**	**78,994**	**610,703**
	476,020	**402,773**	**100,418**	**778,375**

2008

	Opening balance	Additions during the year	Reductions during the year	Closing balance
Handsets	49,516	55,993	9,263	96,246
System products	209,475	222,438	52,139	379,774
	258,991	278,431	61,402	476,020

Development costs accounted for 6.5% of total research and development costs in 2009 (2008: 6.5%).

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

16. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities were not presented as a net amount after offsetting.

Deferred tax assets and liabilities recognised:

	2009	2008
Deferred tax assets		
Unrealised profits arising on consolidation	**135,080**	42,348
Provision for impairment in inventory	**88,284**	72,835
Foreseeable contract losses	**92,439**	—
Provision for warranties and returned goods	**29,428**	25,557
Provision for retirement benefits	**5,704**	5,161
Tax losses	**42,450**	84,958
Overseas taxes pending deduction	**250,533**	169,406
	643,918	400,265

	2009	2008
Deferred tax liabilities		
Capitalisation of research and development costs	**(3,924)**	(5,019)
	(3,924)	(5,019)

Unrecognised deferred tax assets:

	2009	2008
Deductible temporary differences		
Tax losses	**423,141**	362,606

The deductible temporary difference was not recognized as deferred tax assets as the Group did not expect sufficient taxable income in future periods available for deductions.

Unrecognized tax losses expire in the following years:

	2009	2008
2009	**—**	12,680
2010	**21,348**	21,348
2011	**6,044**	6,044
2012	**14,104**	—
After 2012	**381,645**	322,534
	423,141	362,606

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

16. Deferred tax assets/liabilities (continued)

Temporary differences in items of assets or liabilities:

	2009	2008
Unrealised profits arising on consolidation	**491,453**	153,070
Provision for inventory impairment	**751,999**	470,164
Foreseeable contract losses	**625,992**	620,353
Provision for maintenance and returned goods	**157,144**	136,858
Provision for retirement benefits	**38,028**	36,063
Overseas taxes pending deduction	**1,670,220**	1,129,378
Capitalisation of research and development costs	**(25,060)**	(33,462)
Temporary differences relating to investments in subsidiaries (Note 1)	**822,525**	232,278
	4,532,301	2,744,702

Note 1: According to the Enterprise Income Tax Law of the People's Republic of China and the Implementation Regulations for Enterprise Income Tax of the People's Republic of China which took effect on 1 January 2008, dividend income payable to overseas investors derived from profit of PRC subsidiaries generated after 1 January 2008 is subject to a 10% withholding tax, or 5% for companies incorporated in Hong Kong. As at 31 December 2009, the Group did not recognize income tax liabilities in respect of tax obligations arising from future distribution of the retained profits of the subsidiaries because the Group controlled the dividend policies of these subsidiaries and was of the view that profit generated in the relevant periods would not be available for distribution in the foreseeable future.

17. Provision for impairment of assets

2009

	Opening balance	Provision for the year	Reduction during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	**1,702,254**	**519,459**	**(63,354)**	**(303,412)**	**1,854,947**
Including: Trade receivables	**1,526,730**	**519,459**	**–**	**(303,412)**	**1,742,777**
Long-term receivables	**175,524**	**–**	**(63,354)**	**–**	**112,170**
Provision for impairment of inventories	**470,164**	**281,835**	**–**	**–**	**751,999**
Provision for impairment of fixed assets	**87,002**	**–**	**–**	**–**	**87,002**
Provision for impairment of intangible assets	**26,956**	**–**	**–**	**–**	**26,956**
	2,286,376	**801,294**	**(63,354)**	**(303,412)**	**2,720,904**

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

17. Provision for impairment of assets (continued)

2008

	Opening balance	Provision for the year	Reduction during the year: Write-back	Reduction during the year: Write-off	Closing balance
Bad debt provision	1,236,853	478,818	(5,864)	(7,553)	1,702,254
Including: Trade receivables	1,055,465	478,818	–	(7,553)	1,526,730
Long-term receivables	181,388	–	(5,864)	–	175,524
Provision for impairment of inventory	523,760	37,027	(90,623)	–	470,164
Provision for impairment of fixed assets	87,002	–	–	–	87,002
Provision for impairment of intangible assets	26,956	–	–	–	26,956
	1,874,571	515,845	(96,487)	(7,553)	2,286,376

The Group determines at the balance sheet whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss.

18. Short-term loans

		2009 Original currency	2009 RMB equivalent	2008 Original currency	2008 RMB equivalent	
Credit loans	RMB	**604,000**	**604,000**	343,000	343,000	
	USD	**457,000**	**3,120,487**	384,546	2,628,218	
	INR	**540,000**	**78,630**	–	–	
Guaranteed loans	RMB	**43,000**	**43,000**	–	–	Note 1
Secured loans	RMB	**12,500**	**12,500**	–	–	Note 2
Bill discounted loans	RMB	**926,208**	**926,208**	–	–	Note 3
Pledged loans	USD	**16,795**	**114,678**	127,117	868,794	Note 4
Others			**7,000**		42,467	
			4,906,503		3,882,479	

At 31 December 2009, the annual interest rate of the above loans ranged from 1.26%–10% (31 December 2008: 1.68%–6.56%).

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

18. Short-term loans (continued)

Note 1: Guaranteed loans of RMB5,000,000 and RMB20,000,000, borrowed by Xi'an Zhongxing Jing Cheng Communication Company Limited, were guaranteed by Shenzhen Zhongxing Netview Technology Company Limited (深圳市中興力維技術有限公司) and ZTEsoft Technology Company Limited, respectively. Guaranteed loans of RMB8,000,000 and RMB10,000,000, borrowed by Shenzhen Kangquan Electromechanical Company Limited and Shenzhen Lead Communications Company Limited, respectively, were guaranteed by Shenzhen Zhongxing WXT Equipment Company Limited.

Note 2: Loans of RMB7,500,000 were secured by land use rights and plants of Anhui Wantong Postal and Telecom Company Limited with book values of RMB4,140,000 and RMB3,990,000, respectively. Loans of RMB5,000,000 were secured by houses and buildings of Xi'an Zhongxing Jing Cheng Communication Company Limited with a book value of RMB3,500,000 and guaranteed by Anhui Wantong Postal and Telecom Company Limited.

Note 3: The loan comprised bank loans of RMB903,213,000 discounted on bill receivables issued by the Group's subsidiaries and RMB17,095,000 discounted on bill receivables issued by third parties independent from the Group.

Note 4: Pledged loans of RMB114,678,000 were bank loans secured by trade receivables.

19. Bills payable

	2009	2008
Commercial acceptance bills	**3,239,419**	2,613,970
Bank acceptance bills	**5,245,442**	3,704,089
	8,484,861	6,318,059

An amount of RMB8,484,861,000 will fall due in the next accounting period (31 December 2008: RMB6,318,059,000).

As at 31 December 2009, bills payable included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB15,407,000 (31 December 2008: 17,519,000). Please refer to Note VI. "The relationships and transactions with related parties".

20. Trade payables

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

As at 31 December 2009, trade payables included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB200,556,000 (31 December 2008: RMB242,960,000). Please refer to Notes VI "The relationships and transactions with related parties".

21. Advances from customers

	2009	2008
Advanced payments for system project work	**2,021,274**	949,270
Advanced payments for handsets	**316,354**	443,592
	2,337,628	1,392,862

As at 31 December 2009, advance from customers included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB13,245,000 (31 December 2008: RMB13,730,000). Please refer to Note VI. "The relationships and transactions with related parties".

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

22. Salary and welfare payables

2009

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	**1,091,334**	**7,805,912**	**(6,963,543)**	**1,933,703**
Staff welfare	**12,683**	**396,246**	**(376,415)**	**32,514**
Social insurance	**12,173**	**579,292**	**(577,378)**	**14,087**
Including: Medical Insurance	**10,507**	**404,608**	**(404,356)**	**10,759**
Pension insurance	**1,216**	**139,480**	**(137,703)**	**2,993**
Unemployment insurance	**254**	**15,857**	**(15,903)**	**208**
Working injuries insurance	**100**	**9,745**	**(9,770)**	**75**
Maternity Insurance	**96**	**9,602**	**(9,646)**	**52**
Housing funds	**1,360**	**123,547**	**(122,937)**	**1,970**
Labour union fund and employee education fund	**325,467**	**217,028**	**(126,049)**	**416,446**
	1,443,017	**9,122,025**	**(8,166,322)**	**2,398,720**

2008

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	896,972	5,449,940	(5,255,578)	1,091,334
Staff welfare	9,555	353,632	(350,504)	12,683
Social insurance	9,045	383,264	(380,136)	12,173
Including: Medical Insurance	8,411	272,775	(270,679)	10,507
Pension insurance	449	83,713	(82,946)	1,216
Unemployment insurance	112	12,885	(12,743)	254
Working injuries insurance	28	9,002	(8,930)	100
Maternity Insurance	45	4,889	(4,838)	96
Housing funds	1,790	81,768	(82,198)	1,360
Labour union fund and employee education fund	290,069	160,543	(125,145)	325,467
	1,207,431	6,429,147	(6,193,561)	1,443,017

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

23. Tax payable

	2009	2008
Value-added tax ("VAT")	**(1,122,542)**	(1,362,909)
Business tax	**57,478**	12,063
Income tax	**1,147,347**	559,953
PRC tax	**528,063**	148,843
Overseas tax	**619,284**	411,110
Individual income tax	**62,412**	27,311
City maintenance and construction tax	**8,270**	2,809
Education surcharge	**10,744**	7,154
Other taxes	**(85,994)**	(11,421)
	77,715	(765,040)

24. Dividend payable

	2009	2008
Dividend payable to holders of restricted shares	**74**	10
Dividend payable to minority shareholders	**16,892**	22,740
	16,966	22,750

25. Other payables

	2009	2008
Employee subscriptions under the share incentive scheme	**447,235**	529,273
Accruals	**653,590**	347,558
Payables to external parties	**612,229**	289,936
Deposits	**297,504**	67,965
Factored interest payable in relation to the derecognition of trade receivables	**73,868**	120,000
Others	**129,051**	198,279
	2,213,477	1,553,011

As at 31 December 2009, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB1,078,000 (31 December 2008: RMB2,892,000). Please refer to Notes VI. "The relationships and transactions with related parties".

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

26. Provisions

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Provision for penalties	**33,524**	**12,286**	**(13,290)**	**32,520**
Provision for returned handsets	**44,792**	**23,043**	**(12,950)**	**54,885**
Provision for warranties	**92,066**	**72,896**	**(62,703)**	**102,259**
	170,382	**108,225**	**(88,943)**	**189,664**

2008

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Provision for penalties	36,603	5,171	(8,250)	33,524
Provision for returned handsets	30,371	27,531	(13,110)	44,792
Provision for warranties	59,068	135,045	(102,047)	92,066
	126,042	167,747	(123,407)	170,382

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

	2009	2008
Long-term loans due within one year	**1,939,965**	1,782,006

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

		2009		2008		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	**1,000,000**	**1,000,000**	—	—	
	USD	**30,000**	**204,845**	40,000	273,817	
Guaranteed loans	RMB	**46,667**	**46,667**	413,286	413,286	Note 1
Secured loans	USD	**100,800**	**688,283**	160,200	1,094,903	Note 2
Others			**170**	—	—	
			1,939,965		1,782,006	

Note 1: Guaranteed loans comprised a loan guaranteed by the government of Congo (Kinshasa).

Note 2: The loan was guaranteed by the Company's 51% equity interests in Congo-Chine Telecom S.A.R.L ("Congo-Chine"). The loan is also secured by fixed assets purchased by financing from the loan. See Note V.13.

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

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

As at 31 December 2009, the top five long-term non-current liabilities due within one year in terms of amount were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate (%)	Balance at the end of 2009 Foreign currency	Balance at the end of 2009 RMB equivalent	Balance at the end of 2008 Foreign currency	Balance at the end of 2008 RMB equivalent
The Export-Import Bank of China	2007.6.30	2010.5.21	RMB	approx. 4%	–	800,000	–	800,000
China Development Bank	2007.6.30	2010.5.21	USD	approx. 3%	58,800	401,498	58,800	401,498
The Export-Import Bank of China	2009.3.12	2010.12.17	RMB	approx. 4%	–	200,000	–	–
China Development Bank	2008.3.1	2010.5.21	USD	approx. 3%	25,000	170,705	25,000	170,705
China Citic Bank	2007.3.31	2010.3.31	USD	approx. 3%	20,000	136,564	20,000	136,564

28. Long-term loans

		2009 Original currency	2009 RMB equivalent	2008 Original currency	2008 RMB equivalent	
Credit loans	RMB	711,000	711,000	805,986	805,986	
	USD	160,000	1,092,512	30,000	205,038	
Guaranteed loans	RMB	234,810	234,810	281,523	281,523	Note 1
Secured loans	USD	52,440	358,071	—	—	Note 2
			2,396,393		1,292,547	

Note 1: Guaranteed loans comprised a loan guaranteed by the government of Congo (Kinshasa).

Note 2: The secured loan was obtained by the Closed Joint Stock Company TK Mobile with its existing network equipment and future assets to be formed under the loan agreement as security. See Note V.13.

As at 31 December 2009, the top five long-term loans due within one year in terms of amount were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate (%)	Balance at the end of 2009 Foreign currency	Balance at the end of 2009 RMB equivalent	Balance at the end of 2008 Foreign currency	Balance at the end of 2008 RMB equivalent
The Export-Import Bank of China	2009.6.12	2011.6.12	RMB	approx. 4%	–	400,000	–	–
China Development Bank	2009.12.6	2015.12.6	USD	approx. 3%	52,440	358,071	–	–
Bank of China	2009.1.20	2012.1.20	USD	approx. 3%	50,000	341,410	–	–
Bank of China	2009.3.12	2012.3.12	USD	approx. 3%	40,000	273,128	–	–
The Export-Import Bank of China	2009.4.24	2011.3.12	RMB	approx. 4%	–	250,000	–	–

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29. Bonds cum warrants

	2009	2009
Opening balance	**3,514,652**	—
Liability component of bonds cum warrants	**3,381,234**	3,381,234
Interest expenses	**150,029**	133,418
Interest payments	**(32,000)**	—
Balance at year-end	**3,632,681**	3,514,652

On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each and a total amount of RMB4 billion. The bonds and the warrants are listed on the Stock Exchange of Shenzhen. The bonds with warrants are guaranteed by China Development Bank, and are fully redeemable within 5 years from the date of issue. Holders of the bonds have also been issued 1.63 warrants at nil consideration for every bond issued and therefore a total of 65,200,000 warrants have been issued. The warrants are valid for 24 months from the date of listing. Holders of the Warrants are entitled to subscribe for one A Share for every two warrants held at an initial exercise price of RMB78.13 per Share. In the event of any ex-rights or ex-dividend netting of share prices during the effective period for the warrants, the exercise price and exercise ratio of the warrants will be adjusted accordingly. As the Company distributed share dividend and issued bonus shares during 2008 and 2009, the exercise price of the warrants was adjusted to RMB42.394 per share and the exercise ratio was adjusted to the subscription of 0.922 A share for every one warrant held.

With effect from 1 February 2010, the "中興ZXC1" warrant has become exercisable. Please refer to Note X. Post Balance Sheet Date Events for the results of the exercise and changes in shareholdings.

The coupon interest rate of the bonds cum warrants is 0.8% per annum payable on 30 January of each year. At the issue of the bonds, interest rates of similar bond issues (without warrants) in the market were higher than the interest rate of the bond cum warrants.

The fair value of the liability component of the bonds cum warrants was assessed by reference to interest rates of similar bond issues (without warrants) in the market at the issue date.

The net book value of the liability component of the bonds cum warrants at the issue date was set out as follows:

Coupon value of Bonds cum Warrants	4,000,000
Equity component	(580,210)
Direct transaction costs attributable to the liability component	(38,556)
Liability component at issue date	3,381,234

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30. Specific payables

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
CASIC appropriations	**80,000**	**—**	**80,000**	**—**

In 2001, the China Aerospace Science and Industry Corporation ("CASIC") Group granted a special R&D fund of RMB80 million to the Company on behalf of the government. It was specifically provided in the agreement governing the R&D fund that the Company was not required to repay the fund after the project was completed, while the CASIC Group would be entitled to rights as the representative of the State capital contributor for such amount. The R&D fund had been fully utilized by 2002 and due inspection for acceptance had been performed by the CASIC Group. However, since the Company is a listed company and it is not permissible under current State regulations to issue additional shares to the CASIC Group through private placing, the CASIC Group has not been able to exercise its rights as the representative of the State capital contributor. The CASIC Group has not made any demands for withdrawal of the fund.

As the project concerned has been completed for some years and no demand for the refund of the amount could possibly be made, the Company has transferred it to "Capital Reserve" for the year, which means that it will not be applied towards capitalisation, the making-up of losses or other uses for the time being.

31. Other non-current liabilities

	2009	2008
Long-term financial guarantee contract	**3,689**	3,689
Provision for retirement benefits	**38,028**	36,063
Factored interest payable in relation to the derecognition of trade receivables	**255,052**	—
	296,769	39,752

32. Share capital

2009

	Opening balance	Increase/(decrease) during the year: Transfer from capital reserve	Others	Sub-total	Closing balance
Restricted shares					
Domestic natural person shares	**—**	**—**	**66,899**	**66,899**	**66,899**
Senior management shares	**1,693**	**486**	**3,380**	**3,866**	**5,559**
Total number of restricted shares	**1,693**	**486**	**70,279**	**70,765**	**72,458**
Unrestricted shares					
RMB Ordinary Shares	**1,117,426**	**335,249**	**14,728**	**349,977**	**1,467,403**
Overseas listed foreign shares	**224,211**	**67,264**	**—**	**67,264**	**291,475**
Total number of unrestricted shares	**1,341,637**	**402,513**	**14,728**	**417,241**	**1,758,878**
Total number of shares	**1,343,330**	**402,999**	**85,007**	**488,006**	**1,831,336**

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32. Share capital (continued)

2008

	Opening balance	Increase/(decrease) during the year: Transfer from capital reserve	Others	Sub-total	Closing balance
Restricted shares					
State-owned corporate share	310,983	105,202	(416,185)	(310,983)	—
Domestic natural person shares	971	394	328	722	1,693
Total number of restricted shares	311,954	105,596	(415,857)	(310,261)	1,693
Unrestricted shares					
RMB ordinary shares	487,417	214,152	415,857	630,009	1,117,426
Overseas listed foreign shares	160,151	64,060	—	64,060	224,211
Total number of unrestricted shares	647,568	278,212	415,857	694,069	1,341,637
Total number of shares	959,522	383,808	—	383,808	1,343,330

Note 1: Pursuant to a resolution passed at the 2008 general meeting, the Company enlarged its share capital with the issuance of 3 shares by way of capitalisation of reserves for every 10 shares held on the basis of a total share capital of 1,343,330,310 shares as at 31 December 2008, resulting in the issuance of a total of 402,999,092 shares. Following the capitalisation, the share capital of the Company was increased to RMB1,746,329,402. The said change in share capital has been verified by BDO Guangdong Dahua Delu CPA, who has issued Capital Verification Report Hua De Yan Zi [2009] No. 106 in connection therewith.

Note 2: At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total subject share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company. After the deduction of subject share quota of 43,425 shares which had lapsed, the share capital of the Company has increased by 85,006,813 shares. For details, please refer to "Note VII. Share-based Payment". The share capital of the Company was increased to RMB1,831,336,215 as a result. The said change in share capital has been verified by BDO Guangdong Dahua Delu CPA, who has issued Capital Verification Report Hua De Yan Zi [2009] No. 107 in connection therewith. As at the date of approval of these financial statements, the Company had yet to obtain the amended business licence.

33. Capital reserves

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium[Note 1]	**5,078,849**	**692,466**	**(402,999)**	**5,368,316**
Equity component of bonds cum warrants	**580,210**	**—**	**—**	**580,210**
Change in shareholders' equity of investee net of gains/losses under equity method and other capital reserves	**39,414**	**1,095**	**—**	**40,509**
Equity settled transaction[Note 2]	**599,699**	**299,594**	**(218,429)**	**680,864**
Capital injection from government	**—**	**80,000**	**—**	**80,000**
	6,298,172	**1,073,155**	**(621,428)**	**6,749,899**

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

33. Capital reserves (continued)

2008

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	5,462,657	—	(383,808)	5,078,849
Equity component of bonds cum warrants	—	580,210	—	580,210
Change in shareholders' equity of investee net of gains/losses under equity method and other capital reserves	44,527	4,763	(9,876)	39,414
Equity settled transaction	300,148	299,551	—	599,699
	5,807,332	884,524	(393,684)	6,298,172

Note 1: It was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total subject share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009. The total share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 subject shares which have lapsed, and a share premium amount of RMB474,037,000 had been credited to the capital reserves.

The proposals of profit distribution and capitalisation from capital reserve of the Company for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held by way of capitalization from capital reserves. A share premium amount of RMB402,999,000 was deducted from the capital reserve accordingly.

Note 2: In 2009, equity-settled share-based payments with a total amount of RMB299,594,000 were recognized as current expenses.

As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. The unlocking of 15,269,290 shares, being 20% of the Subject Shares under the First Unlocking, was completed on 22 July 2009. A corresponding amount of RMB218,429,000 previously charged to share-based payments in the capital reserve was transferred to share premium in the capital reserve accordingly.

34. Restricted shares subject to lock-up

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis, whereby the total number of shares was increased from 1,746,329,402 shares to 1,831,336,215 shares. Unlocking conditions in respect of 15,269,290 shares, being 20% of the Subject Shares under the First Unlocking, had been fulfilled and such shares were listed on 23 July 2009. After the deduction of 15,269,290 Subject Shares under the First Unlocking, there were 69,737,523 registered Subject Shares for which unlocking conditions had not been fulfilled as at 31 December 2009. In accordance with the Share Incentive Scheme and relevant legal undertakings executed by the Company and the Scheme Participants, such shares are being held under the name of the Scheme Participants, who are not entitled to any cash dividend distribution and voting rights until the unlocking conditions have been fulfilled in respect of such shares. In the event of the departure of Scheme Participants prior to the end of the effective period of the Share Incentive Scheme, whether by resignation or layoff, such Scheme Participants may exercise their rights in the unlocked Subjects Shares as normal in accordance with the provisions of the Share Incentive Scheme, while Subjects Shares subject to lock-up will not be unlocked but will lapse after the Company refunds the subscription costs that have been paid by such Scheme Participants at their own cost for the subscription of Subject Shares. Therefore, subscription amounts paid by Scheme participants whose restricted shares subject to lock-up amounting to RMB447,235,000 were recognised in the balance sheet as a debt item in equity as "restricted shares subject to lock-up". For details of the Share Incentive Scheme, please refer to Note VII. "Share-based payment".

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

35. Surplus reserves

2009

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	**1,431,820**	**73,383**	**—**	**1,505,203**

2008

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,364,758	67,062	—	1,431,820

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital.

36. Retained profits

	2009	2008
Retained profits at the beginning of the year	**5,021,369**	3,831,231
Net profit	**2,458,121**	1,660,199
Less: Statutory surplus reserves	**73,383**	67,062
Proposed final dividends*	**552,425**	402,999
Retained profits at the end of the year	**6,853,682**	5,021,369

In accordance with the Articles of Association of the Company, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs.

* Details of proposed final dividend for the year are set out in Note X.4. The said profit distribution proposal is subject to the approval of the annual general meeting of the Company.

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

37. Operating revenue and costs

Operating revenue is analysed as follows:

	2009	2008
Revenue	**60,070,089**	44,048,684
Other income	**202,474**	244,743
	60,272,563	44,293,427

Operating cost is analysed as follows:

	2009	2008
Costs of sales	**40,572,026**	29,450,787
Other operating expenses	**51,313**	41,743
	40,623,339	29,492,530

Principal operations by product:

	2009		2008	
	Revenue	**Cost**	Revenue	Cost
Networks	**39,982,316**	**26,035,409**	28,963,799	18,315,311
Terminals	**13,071,519**	**9,654,717**	9,692,563	7,393,024
Telecommunications software system, services and other products	**7,016,254**	**4,881,900**	5,392,322	3,742,452
	60,070,089	**40,572,026**	44,048,684	29,450,787

Revenue from the construction of carriers' networks included income of RMB825,603,000 (2008: nil) arising from the factoring of long-term receivables due from an African telecommunications operator to banks. See Note V.10 for details of the arrangement.

Principal operations by geography:

	2009		2008	
	Revenue	**Cost**	Revenue	Cost
The PRC	**30,304,313**	**20,362,499**	17,345,598	11,180,407
Asia (excluding the PRC)	**13,147,385**	**10,216,138**	10,371,020	7,818,587
Africa	**6,841,317**	**3,176,310**	9,287,812	5,230,246
Others	**9,777,074**	**6,817,079**	7,044,254	5,221,547
	60,070,089	**40,572,026**	44,048,684	29,450,787

Sales to the top five customers of the Group generated revenue of RMB28,294,883,000 in 2009 (2008: RMB16,926,252,000), accounting for 47.10% (2008: 38.43%) of the operating revenue of the Group respectively.

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

38. Construction contracts

Construction contracts are stated as the sum of accumulated costs and accumulated gross profit (loss) recognized less settled contract amounts and expected losses on contracts. See Note V.8. In current year, no single contract accounted for more than 10% of the operating revenue.

39. Taxes and surcharges

	2009	2008
Business tax	**584,039**	277,835
City maintenance and construction tax	**33,908**	29,093
Education surcharge	**47,619**	48,655
Others	**27,367**	60,271
	692,933	415,854

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

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

	2009	2008
Derivative financial instruments	**12,560**	(128,328)

41. Investment income/(losses)

	2009	2008
Investment income from long-term equity investment under equity method	**26,002**	19,877
Investment income from long-term equity investment under cost method	**2,100**	3,257
Investment income/(losses) from the disposal of derivative financial instruments	**(10,162)**	73,232
Investment income/(losses) from the disposal of long-term equity investments	**(6,069)**	26,300
	11,871	122,666

As at 31 December 2009, the Company was not subject to significant restrictions in remitting its investment income.

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

42. Finance expenses

	2009	2008
Interest expenses	**751,744**	690,174
Less: Interest income	**110,715**	112,786
Loss/(gain) on foreign currency exchange	**(206,703)**	487,248
Cash discounts and interest subsidy	**69,681**	56,683
Bank charges	**280,719**	186,935
	784,726	1,308,254

43. Impairment Losses

	2009	2008
Bad debt provisions	**456,105**	472,954
Inventories provisions/(reversal)	**281,835**	(53,596)
	737,940	419,358

44. Non-operating income/Non-operating expenses

Non-operating income

	2009	2008
Refund of VAT on software products(Note 1)	**981,274**	841,632
Government subsidies	**299,519**	238,508
Others(Note 2)	**110,627**	18,156
	1,391,420	1,098,296

Note 1 Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by a subsidiary of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities in Shenzhen.

Note 2 Others represents gains from contract penalties and other gains.

Government subsidies included in the profit or loss are set out as follows:

	2009	2008
Financial subsidies	**130,848**	53,833
Government appropriations for technology projects	**167,034**	131,037
Other tax subsidies	**1,637**	53,638
	299,519	238,508

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

44. Non-operating income/Non-operating expenses (continued)

Non-operating expenses

	2009	2008
Compensation	**67,139**	33,997
Loss arising from the disposal of non-current assets	**26,744**	37,154
Others	**36,958**	9,995
	130,841	81,146

45. Income tax

	2009	2008
Current income tax	**873,829**	450,104
Deferred income tax	**(244,748)**	(99,496)
	629,081	350,608

A reconciliation between income tax and total profit was as follows:

	2009	2008
Total profit	**3,324,742**	2,262,543
Tax at statutory tax rate (Note 1)	**831,186**	565,636
Effect of different tax rates applicable to certain subsidiaries	**(392,775)**	(226,254)
Profits and losses attributable to jointly-controlled entities and associates	**(4,537)**	201
Income not subject to tax	**(181,327)**	(105,676)
Expenses not deductible for tax	**338,320**	195,330
Utilisation of tax losses from previous years	**(15,449)**	(135,957)
Unrecognised tax losses	**53,663**	57,328
Tax charge at the Group's effective rate	**629,081**	350,608

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

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

46. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the parent for the year by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year are assumed to have been converted on the date of issue.

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

	2009	2008 (Restated)
Earnings		
Net profit attributable to ordinary shareholders of the Company for the year	**2,458,121**	1,660,199
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**1,752,692**	1,746,329
Diluting effect — weighted average number of ordinary shares:		
Restricted Shares under share incentive scheme (Note 2)	**69,738**	46,754
Warrants (Note 3)	**—**	—
Adjusted weighted average number of ordinary shares of the Company	**1,822,430**	1,793,083

Note 1: In June 2009, the Company enlarged its share capital by 402,999,092 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 1,746,329,402 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

All of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis, whereby the total share capital of the Company was increased from 1,746,329,402 shares to 1,831,336,215 shares. After the deduction of 69,737,523 shares which were restricted shares subject to the lock-up (Note V.34), the ordinary share capital of the Company for the purpose of calculating basic earnings per share shall be 1,761,598,692 shares in effect.

Note 2: During the reporting period, 69,737,523 restricted shares subject to lock-up under the Phase I Share Incentive Scheme of the Company gave rise to potentially dilutive ordinary shares.

Note 3: The average market price of the ordinary shares during the year is less than the exercise price of the warrants, and therefore, the effect of the warrants are not dilutive and are not considered in the calculation of diluted earnings per share.

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

47. Other comprehensive income

	2009	2008
Differences arising from foreign currency translation	**8,644**	(181,500)

48. Notes to cash flow statement

	2009	2008
Cash received in connection with other operating activities:		
Government subsidies	**328,068**	93,623
Interest income	**110,715**	112,786
Cash paid in connection with other operating activities:		
Selling and distribution costs	**4,458,413**	3,082,261
Administrative expenses and research and development costs	**2,501,214**	2,414,955

49. Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities

	2009	2008
Net profit	**2,695,661**	1,911,935
Add: Provision for impairment of assets	**737,940**	419,358
Depreciation of fixed assets	**762,838**	584,689
Amortisation of intangible assets and deferred development costs	**175,282**	115,381
Amortisation of long-term deferred assets	**8,832**	14,356
Loss on disposal of fixed assets, intangible assets and other long-term assets	**26,744**	37,154
Loss/(gain) from changes in fair value	**(12,560)**	128,328
Finance expenses	**545,041**	896,990
Investment income	**(11,871)**	(122,666)
Increase in deferred tax assets	**(243,653)**	(48,055)
Decrease in deferred tax liabilities	**(1,095)**	(51,441)
Increase in inventories	**(628,599)**	(1,494,937)
Increase in operating receivables	**(12,353,376)**	(3,193,019)
Increase in operating payables	**12,621,593**	4,113,114
Share incentive scheme costs	**299,594**	299,551
Decrease/(increase) in cash subject to ownership restrictions	**(893,099)**	37,175
Net cash flows from operating activities	**3,729,272**	3,647,913

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

49. Supplemental information on cash flow statement (continued)

Change in cash and cash equivalents

	2009	2008
Cash		
Including: Cash on hand	**11,188**	15,299
Bank deposit readily available	**14,064,634**	11,328,861
Cash and cash equivalents at end of year	**14,075,822**	11,344,160

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Wei Liang	Manufacturing	RMB100 million	33.87%	33.87%	19222451-8

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note IV. Scope of Consolidation of the Consolidated Financial Statements.

3. Jointly-controlled entities and associates

Details of the jointly-controlled entity and associates are set out in Note V. 11.

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

4. Other related parties

	Relationship	Organisation number
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder	27941498X
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder	H0420141-X
Shenzhen Zhongxing Information Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	715233457
Shenzhen Gaodonghua Communication Technology Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	74323392-1
Shenzhen Shenglongfeng Industrial Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	72619249-4
北京協力超越科技有限公司	Controlling party of a shareholder of the Company's controlling shareholder	76678817-X
Lishan Microelectronics Research Institute	Shareholder of the Company	43523013-9
Jilin Posts and Telecommunications Equipment Company	Shareholder of the Company	12391552-6
Hunan Nantian (Group) Company, Limited	Shareholder of the Company	18380498-2
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder as the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same controlling shareholder as the Company	78390928-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Under the same controlling shareholder as the Company	75252829-7
深圳市中興環境儀器有限公司	Under the same controlling shareholder as the Company	76195854-3
Beijing Zhongxing Intelligent Transportation Systems Limited	Senior management of the Company concurrently acting as director of the related party	72260457-8
Mobi Antenna Technologies (Shenzhen) Company Limited	Supervisor of the Company concurrently acting as director of the related party	71522427-8
Shenzhen Zhongxing Development Company Limited	Chairman of the Company concurrently acting as chairman of the related party	75048467-3
Chongqing Zhongxing Development Company Limited	Subsidiary of a company whose chairman concurrently acting as Chairman of the Company	76591251-1
Shenzhen Zhongxing International Investment Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	77878419-2

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) Sales of goods to related parties:

	2009		2008	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Nanchang Xingfei Technology Company Limited*	**32,682**	**0.05**	1,429	—
Shenzhen Zhongxing Information Company Limited	**6,285**	**0.01**	8,196	0.02
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**3,294**	**0.01**	132	—
Nationz Technologies Inc.	**34**	**—**	46	—
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**8**	**—**	77	—
Shenzhen Zhongxing Xinyu FPC Company Limited	**—**	**—**	39	—
Beijing Zhongxing Intelligent Transportation Systems Limited	**37,849**	**0.06**	23,377	0.05
中興軟件技術(南昌)有限公司	**514**	**—**	20,237	0.05
Shenzhen Weigao Semiconductor Company Limited	**13**	**—**	9,629	0.02
	80,679	**0.13**	63,162	0.14

In 2009, sales to related parties accounted for 0.13% of the Group's total sales. (2008: 0.14%).

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

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

(2) Purchase of goods from related parties:

	2009		2008	
	Amount	Percentage (%)	Amount	Percentage (%)
Nanchang Xingfei Technology Company Limited*	**67,818**	**0.16**	—	—
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**475,661**	**1.17**	522,828	1.77
Shenzhen Zhongxing WXT Equipment Company Limited	**—**	**—**	59,973	0.20
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**192,843**	**0.48**	186,191	0.63
Shenzhen Zhongxing Information Company Limited	**14,113**	**0.03**	1,655	0.01
Xi'an Microelectronics Technology Research Institute	**3,937**	**0.01**	6,699	0.02
Shenzhen Zhongxing Xinyu FPC Company Limited	**21,520**	**0.05**	29,182	0.10
Nationz Technologies Inc.	**87,533**	**0.22**	45,211	0.15
Wuxi KaiEr Technology Company Limited	**47,216**	**0.12**	28,052	0.10
Shenzhen Decang Technology Company Limited	**58,514**	**0.14**	35,962	0.12
Shenzhen Fudekang Electronics Company Limited	**35,270**	**0.09**	39,051	0.13
中興軟件技術(南昌)有限公司	**1,654**	**—**	361	—
深圳市聚飛光電有限公司	**8,140**	**0.02**	10,894	0.04
Mobi Antenna Technologies (Shenzhen) Company Limited	**331,639**	**0.82**	221,104	0.75
Shenzhen Smart Electronics Company Limited	**698**	**—**	186	—
Zhongxing Xinzhou Complete Equipment Company Limited	**12,083**	**0.03**	45,132	0.15
Shenzhen Shenglongfeng Industrial Company Limited	**17,149**	**0.04**	11,303	0.04
Shenzhen Hongde Battery Company Limited*	**35,774**	**0.09**	—	—
Shenzhen Weigao Semiconductor Company Limited	**19,849**	**0.05**	19,597	0.07
	1,431,411	**3.52**	1,263,381	4.28

In 2009, purchases from related parties accounted for 3.52% of the Group's total purchases (2008: 4.28%).

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

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

(2) Purchase of goods from related parties: (continued)

* In April 2009, after disposal of part of the equity interest, Shenzhen Hongde Battery Company Limited ("Hongde"), the Company's subsidiary before disposal, became the Company's associate. In December 2009, after acquisition of the equity interest, Nanchang Xingfei Technology Company Limited ("Nanchang Xingfei"), an associate of the Company before acquisition, became the Company's indirect subsidiary. In the opinion of the management, no further disclosure is needed as these disposal and acquisition of equity interest have no material impact on the Group. The above transactions with both related parties only included the transactions between Hongde, Nanchang Xingfei and the Group occurring in the periods in which Hongde and Nanchang Xingfei were the associates of the Company.

(3) Lease of properties from related parties:

2009

	Name of lessor	Property leased	Starting date	Ending date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	The Company/Chengdu Zhongxing Software Company, Limited	Office	2007/04/18	2010/04/17	29,961
Shenzhen Zhongxing Development Company Limited	The Company	Office	2007/04/18	2010/04/17	35,596
Chongqing Zhongxing Development Company Limited	The Company	Office	2008/10/23	2011/10/22	4,631

2008

	Name of lessor	Property leased	Effective date	Expiry date	Lease cost
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	The Company	Office	2007/04/18	2010/04/17	28,535
Shenzhen Zhongxing Development Company Limited	The Company	Office	2007/04/18	2010/04/17	33,143
Chongqing Zhongxing Development Company Limited	The Company	Office	2008/10/23	2011/10/22	858

(4) Guarantees for related parties:

2009

	Guaranteed party	Guarantee amount	Effective date	Expiry date	Completed
Shenzhen Zhongxing WXT Equipment Company Limited	Shenzhen Kangquan Electromechanical Company, Limited.	8,000	2009.8.25	2010.8.25	No
Shenzhen Zhongxing WXT Equipment Company Limited	Shenzhen Lead Communications Company, Limited.	10,000	2009.6.19	2010.6.19	No

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

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

(5) Other major related transactions

	2009		2008	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Remuneration of key management personnel	**19,716**	**0.28%**	13,384	0.25%

Notes:

(i)	Sales of goods to related parties:	Goods were sold to connected parties by the group at market price during the year.
(ii)	Purchase of goods from related parties:	Goods were purchased by the Group from related parties at market price during the year.
(iii)	Leasing property from related parties:	Office space was leased from related parties by the Group during the year and lease costs of RMB70,188,000 was recognized in accordance with relevant lease contracts (2008: RMB62,536,000).
(iv)	Guarantee for related parties:	Shenzhen Zhongxing WXT Equipment Company Limited provided guarantees in respect of loans extended to the Group's subsidiaries Shenzhen Kangquan Electromechanical Company Limited and Shenzhen Lead Communications Company Limited, in the amounts of RMB8,000,000 (2008: Nil) and RMB10,000,000 (2008: Nil), respectively.
(v)	Other major connected transactions:	The total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred by the Group for the year was RMB19,716,000 (2008: RMB13,384,000). The cost for share-based payment was RMB2,622,000 (2008: RMB3,363,000).

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

6. Balances of amounts due from/to related parties

Item	Name of related parties	2009	2008
Bills receivable	Beijing Zhongxing Intelligent Transportation Systems Limited	**—**	3,800
	Wuxi KaiEr Technology Company Limited	**850**	—
		850	3,800
Trade receivables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**—**	943
	Shenzhen Zhongxing Information Company Limited	**1,772**	6,102
	Nationz Technologies Inc.	**—**	19
	中興軟件技術(南昌)有限公司	**4**	3,924
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**—**	54
	Beijing Zhongxing Intelligent Transportation Systems Limited	**11,609**	6,706
		13,385	17,748
Prepayments	Nationz Technologies Inc.	**—**	182
	Shenzhen Zhongxing Information Company Limited	**38**	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**119**	1,106
		157	1,288
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	**—**	909
	深圳市聚飛光電有限公司	**—**	1,125
		—	2,034

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

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

Item	Name of related parties	2009	2008
Bills payable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**369**	641
	Shenzhen Smart Electronics Company Limited	**348**	—
	Nationz Technologies Inc.	**—**	74
	Shenzhen Decang Technology Company Limited	**4,691**	8,577
	Wuxi KaiEr Technology Company Limited	**4,684**	4,180
	Shenzhen Zhongxing Xinyu FPC Company Limited	**1,139**	2,953
	Mobi Antenna Technologies (Shenzhen) Company Limited	**—**	9
	Shenzhen Fudekang Electronics Company Limited	**625**	1,026
	Shenzhen Weigao Semiconductor Company Limited	**378**	59
	Shenzhen Hongde Battery Company Limited	**3,157**	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**16**	—
		15,407	17,519
Trade payables	Shenzhen Smart Electronics Company Limited	**171**	13
	Zhongxing Xinzhou Complete Equipment Company Limited	**3,217**	3,235
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**85,550**	129,468
	Shenzhen Zhongxing WXT Equipment Company Limited	**478**	597
	Shenzhen Zhongxing Information Company Limited	**2,060**	7,482
	Shenzhen Zhongxing Xinyu FPC Company Limited	**2,991**	1,296
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**418**	13,500
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	Nationz Technologies Inc.	**24,082**	7,122
	Shenzhen Decang Technology Company Limited	**14,436**	12,216
	Wuxi KaiEr Technology Company Limited	**9,778**	2,723
	Mobi Antenna Technologies (Shenzhen) Company Limited	**45,323**	59,006
	Shenzhen Fudekang Electronics Company Limited	**3,025**	3,012
	Shenzhen Weigao Semiconductor Company Limited	**5,198**	215
	Shenzhen Shenglongfeng Industrial Company Limited	**2,560**	2,331
	Xi'an Microelectronics Technology Research Institute	**—**	249
	Shenzhen Hongde Battery Company Limited	**786**	—
	中興軟件技術(南昌)有限公司	**12**	—
	深圳市聚飛光電有限公司	**295**	319
		200,556	242,960

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VI. RELATIONSHIPS AND TRANSACTIONS AMONG RELATED PARTIES (continued)

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

Item	Name of related parties	2009	2008
Advanced receipts	Shenzhen Weigao Semiconductor Company Limited	**4,644**	4,644
	Shenzhen Zhongxing Information Company Limited	**293**	577
	Beijing Zhongxing Intelligent Transportation Systems Limited	**825**	1,644
	中興軟件技術(南昌)有限公司	**7,481**	6,865
	Xi'an Microelectronics Technology Research Institute	**2**	—
		13,245	13,730
Dividends payable	Shenzhen Zhongxing WXT Equipment Company Limited	**—**	12,087
Other payables	中興軟件技術(南昌)有限公司	**362**	—
	Lishan Microelectronics Research Institute	**64**	65
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Jilin Posts and Telecommunications Equipment Company	**65**	65
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Shenzhen Smart Electronics Company Limited	**—**	2,015
	Hunan Nantian (Group) Company Limited	**—**	130
	Shenzhen Zhongxing International Investment Company Limited	**4**	4
	深圳市中興環境儀器有限公司	**—**	30
	Shenzhen Zhongxing Development Company Limited	**215**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**308**	308
		1,078	2,892
Other receivables	WANAAG Communications Limited	**573**	—
	Shenzhen Hongde Battery Company Limited	**8,034**	—
		8,607	—

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

VII. SHARE-BASED PAYMENT

1. Overview

	2009	2008
Total amount of employee service in consideration for which share-based payments were made	**1,106,794**	1,055,403

	2009	2008
Equity-settled share-based payments are as follows:		
Accumulated amount of equity-settled share-based payments in capital reserves	**680,864**	599,699
Total costs of equity-settled share-based payments in the year	**299,594**	299,551

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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted.

The Share Incentive Scheme shall be valid for 5 years, comprising a lock-up period of 2 years and an unlocking period of 3 years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

(2) The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

The fair value of the Subject Shares was arrived at based on the market price of the Company's shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit and loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB299,594,000 (2008: RMB299,551,000) at Share Incentive Scheme expenses for the year and an aggregate amount of RMB899,293,000 (2008: RMB599,699,000) has been recognised in expenses as at the end of the year on an accumulative basis.

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the Subject Share quotas of the Phase I Share Incentive Scheme was adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain Scheme Participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have lapsed.

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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

In accordance with the Share Incentive Scheme, Subject Shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. The unlocking of 15,269,290 shares, being 20% of the Subject Shares under the First Unlocking, was completed on 22 July 2009. After the deduction of 709,582 Subject Shares granted to 19 incumbent directors and senior management staff members of the Company and 1 former senior management staff member who had resigned effective 19 March 2009, which shall remain under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on the Shenzhen Stock Exchange and Changes in Shareholdings, a total of 14,559,708 Subject Shares under the current unlocking were listed on 23 July 2009.

VIII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,982,000 (approximately RMB61,874,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB26,602,000) is to be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Currently the case is pending trial by the Supreme Court and civil court of Istanbul. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. The legal department of the Company is of the view that it is difficult to predict the final outcome of the case at this stage. The directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group. Accordingly, the Company has not made any further provisions.

2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement and the second trial is currently in progress. In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, the directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

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VIII. CONTINGENT EVENTS (continued)

3. As at 31 December 2009, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,721,644,000.

4. As at 31 December 2009, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB66,796,000 (31 December 2008: RMB77,177,000). The aforesaid guarantee will expire in September 2018 and December 2013.

IX. COMMITMENTS

	2009	2008
Capital commitments		
Contracted but not provided for	**1,240,388**	301,419
Authorised by the Board but not yet contracted	**5,833,950**	5,875,869
	7,074,338	6,177,288
Investment commitments		
Contracted but performance not completed	**18,850**	265,702

X. POST BALANCE SHEET DATE EVENTS

1. On 21 January 2010, an aggregate of 58,294,800 new H shares were allotted and issued by the Company at the placing price of HK$45.0 per share to no less than six placees, who and whose ultimate beneficial owners are independent third parties. The net proceeds raised from the placing amounted to approximately HK$2,596 million. Following the completion of the placing, the total number of issued shares of the Company has increased from 1,831,336,215 to 1,889,631,015, while the total number of H shares held by the public has increased from 291,474,892 to 349,769,692 shares.

2. In accordance with the prospectus for the issue of bonds cum warrants of ZTE Corporation, the exercise period of warrants attached to bonds of the Company commenced on 1 February 2010 and expired on 12 February 2010. As at 12 February 2010, a total of 23,348,590 ZXC1 warrants had been exercised, accounting for approximately 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 warrants had not been exercised and had lapsed. Following the exercise of the warrants, the Company's total number of issued share capital has increased from 1,889,631,015 prior to the exercise to 1,911,154,456 after the exercise.

3. The application for initial public offering by Nationz Technologies, an associate of the Company, was approved by the GEM Board Issue Approval Committee under the China Securities Regulatory Commission ("CSRC") at the 13th working meeting of 2010 of the Committee on 26 March 2010. As at 31 December 2009, the Company owned 21.76 million shares of Nationz Technologies, representing 26.67% equity interest of Nationz Technologies before the offering.

4. Pursuant to the profit distribution proposal recommended by the Board, the Company will pay a cash dividend of RMB3 (before tax) for every 10 shares held on the basis of the total share capital of the Company as at 8 April 2010 less the number of restricted shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled in accordance with the implementation of the Share Incentive Scheme as at the A share record date for the purpose of the 2009 profit distribution (the "Record Date"), and will also issue 5 bonus shares for every 10 shares held to shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. In accordance with relevant provisions of the Share Incentive Scheme, application will be made in 2010 for the second unlocking of 35% of the Subject Shares granted, and restricted shares remaining in lock-up shall not be entitled to the cash dividend. As at 8 April 2010, 69,737,523 restricted shares remained in lock-up. The number of shares entitled to the cash dividend under the 2009 profit distribution proposal will be 1,841,416,933 shares in case the second unlocking is not completed by the Record Date, or a maximum of 1,868,214,185 shares in case the second unlocking is completed by the Record Date. The said profit distribution proposal is subject to approval by the general meeting of the Company.

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XI. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2009	2008
Within one year (including first year)	**196,676**	264,396
In the first to second years (including second year)	**93,484**	97,093
In the second to third years (including third year)	**61,630**	40,807
After the third year	**73,864**	45,487
	425,654	447,783

2. Financial instruments convertible into shares and outstanding at the end of the period

Financial instruments of the Company convertible into shares and outstanding as at 31 December 2009 were represented by 65.20 million warrants attached to the bonds cum warrants. See Note V.29.

3. Segment reporting

Operating segments

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

(1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(3) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

Segment assets exclude deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds cum warrants, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at prevailing market prices.

2009

	Network (communications systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	39,982,316	–	4,314,626	44,296,942
Sales of goods and services	–	13,071,519	2,904,102	15,975,621
Sub-total	39,982,316	13,071,519	7,218,728	60,272,563
Segment results	8,814,294	1,738,784	1,358,831	11,911,909
Unallocated revenue				1,391,420
Unallocated cost				(9,232,423)
Finance costs				(784,726)
Gain from changes in fair values				12,560
Investment gains from jointly controlled entities				–
Investment gains from associates				26,002
Total profit				3,324,742
Income tax				(629,081)
Net profit				2,695,661
Total assets				
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Unallocated assets				25,308,100
Sub-total				68,342,322
Total liabilities				
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Unallocated liabilities				39,697,272
Sub-total				50,393,456
Supplemental information				
Capital expenditure	1,650,277	539,529	297,954	2,487,760
Depreciation and amortisation expenses	675,516	158,021	113,415	946,952
Asset impairment losses	489,518	160,040	88,382	737,940

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2008

	Network (communications systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	28,963,799	–	3,127,846	32,091,645
Sales of goods and services	–	9,692,563	2,509,219	12,201,782
Sub-total	28,963,799	9,692,563	5,637,065	44,293,427
Segment results	6,947,712	1,017,539	1,107,276	9,072,527
Unallocated revenue				1,098,296
Unallocated cost				(6,491,575)
Finance costs				(1,308,254)
Loss form changes in fair values				(128,328)
Investment gains from jointly controlled entities				–
Investment gains from associates				19,877
Total profit				2,262,543
Income tax				(350,608)
Net profit				1,911,935
Total assets				
Segment assets	22,468,395	4,931,776	4,364,533	31,764,704
Unallocated assets				19,101,217
Sub-total				50,865,921
Total liabilities				
Segment liabilities	3,399,777	149,854	808,813	4,358,444
Unallocated liabilities				31,323,930
Sub-total				35,682,374
Supplemental information				
Capital expenditure	1,353,308	314,210	267,601	1,935,119
Depreciation and amortisation expenses	499,501	116,044	98,880	714,425
Asset impairment losses	274,221	91,767	53,370	419,358

Notes to Financial Statements

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2009	2008
The PRC	**30,404,275**	17,466,429
Asia (excluding the PRC)	**13,198,605**	10,432,933
Africa	**6,860,602**	9,311,123
Others	**9,809,081**	7,082,942
	60,272,563	44,293,427

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2009	2008
The PRC	**5,240,077**	4,328,290
Asia (excluding the PRC)	**749,818**	586,409
Africa	**1,317,425**	996,895
Others	**142,402**	92,810
	7,449,722	6,004,404

Non-current assets are analysed by geographic locations where the assets (excluding financial assets and deferred tax assets) are located.

Information of major customers

Revenue of telecommunications system contracts from three major customers amounted to RMB24,145,497,000 (2008: RMB13,540,117,000).

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis

The main financial instruments of the group, except for derivatives, include bank loans, cash and etc. The main purpose of these financial instruments is to finance for the group's operation. The group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and aimed at managing the foreign exchange risk in the group operation.

The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk.

Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

2009

Financial assets

	Financial assets dealt with at fair value through current profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash	—	14,496,808	—	14,496,808
Available-for-sale financial assets	—	—	253,760	253,760
Bills receivable	—	779,112	—	779,112
Trade receivables and long-term receivables	—	15,702,964	—	15,702,964
Factored trade receivables and factored long-term receivables	—	5,838,850	—	5,838,850
Other receivables excluding dividends receivable	—	1,058,244	—	1,058,244
Other non-current assets	—	608,359	—	608,359
	—	38,484,337	253,760	38,738,097

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2009 (continued)

Financial liabilities

	Financial liabilities dealt with at fair value through current profit or loss	Other financial liabilities	Total
Bank loans	—	9,242,861	9,242,861
Bills payable	—	8,484,861	8,484,861
Trade payables	—	13,046,804	13,046,804
Bank advances on factored trade receivables and long-term trade receivables	—	5,838,850	5,838,850
Other payables (excluding accruals)	—	1,559,887	1,559,887
Bonds cum Warrants	—	3,632,681	3,632,681
Factored interest payable in relation to the derecognition of trade receivables	—	255,052	255,052
Long-term financial guarantee contract	—	3,689	3,689
	—	42,064,685	42,064,685

2008

Financial assets

	Financial assets dealt with at fair value through current profit or loss	Loans and other receivables	Available-for-sale financial assets	Total
Cash	—	11,480,406	—	11,480,406
Available-for-sale financial assets	—	—	251,148	251,148
Bills receivable	—	1,578,473	—	1,578,473
Trade receivables and long-term receivables	—	10,584,503	—	10,584,503
Factored trade receivables and factored long-term receivables	—	2,412,509	—	2,412,509
Other receivables (excluding dividends receivable)	—	755,813	—	755,813
	—	26,811,704	251,148	27,062,852

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2008 (continued)

Financial liabilities

	Financial liabilities dealt with at fair value Through current profit or loss	Other financial liabilities	Total
Bank loans	—	6,957,032	6,957,032
Bills payable	—	6,318,059	6,318,059
Trade payables	—	9,495,946	9,495,946
Bank advances on factored trade receivables and long-term trade receivables	—	2,412,509	2,412,509
Other payables (excluding accruals)	—	1,205,453	1,205,453
Derivative financial liabilities	12,560	—	12,560
Bonds cum warrants	—	3,514,652	3,514,652
Long-term financial guarantee contract	—	3,689	3,689
	12,560	29,907,340	29,919,900

Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash, available- for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five accounts accounted for 43.80% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 5 and 10.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Credit risk (continued)

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December 2009 is analysed as follows:

2009

			Overdue for:			
	Total	**Not overdue/not impaired**	**Less than 1 year**	**1–2 years**	**2–3 years**	**Over 3 years**
Trade receivables	**15,319,215**	**4,583,346**	**10,307,625**	**413,242**	**15,002**	**—**
Long-term receivables	**383,749**	**383,749**	**—**	**—**	**—**	**—**
Other receivables	**1,059,829**	**—**	**793,213**	**200,422**	**61,830**	**4,364**

2008

			Overdue for:			
	Total	Not overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	9,972,495	4,816,412	4,704,959	444,240	6,884	—
Long-term receivables	612,008	612,008	—	—	—	—
Other receivables	757,847	—	662,704	66,421	19,852	8,870

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds cum warrants and other interest-bearing loans. With the exception of the non-current portion of bank loans, all borrowings are repayable within one year.

The maturity profile of financial assets and financial liabilities based on undiscounted contractual cash flow as at 31 December 2009 is summarised as follows:

2009

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Cash	14,075,822	420,986	–	–	–	14,496,808
Available-for-sale financial assets	253,760	–	–	–	–	253,760
Bills receivable	–	779,112	–	–	–	779,112
Trade receivables and long-term receivables	10,735,869	4,583,346	127,464	149,289	144,661	15,740,629
Factored trade receivables and factored long-term receivables	–	2,870,221	1,376,961	420,902	1,457,781	6,125,865
Other receivables (excluding dividends receivable)	1,058,244	–	–	–	–	1,058,244
Other non-current assets	–	–	36,008	71,973	500,378	608,359
	26,123,695	8,653,665	1,540,433	642,164	2,102,820	39,062,777

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2009 (continued)

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	7,142,977	1,250,739	875,666	366,967	9,636,349
Bills payable	–	8,484,861	–	–	–	8,484,861
Trade payables	13,046,804	–	–	–	–	13,046,804
Bank advances on factored trade receivables and long-term trade receivables	–	3,070,494	1,412,716	440,090	1,704,547	6,627,847
Other payables (excluding accruals)	1,486,019	73,868	–	–	–	1,559,887
Bonds cum warrants	–	32,000	32,000	32,000	4,032,000	4,128,000
Factored interest payable in relation to the derecognition of trade receivables	–	–	69,981	48,127	228,532	346,640
Long-term financial guarantee contract	70,485	–	–	–	–	70,485
	14,603,308	18,804,200	2,765,436	1,395,883	6,332,046	43,900,873

2008

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Cash and bank balances	11,344,160	136,246	–	–	–	11,480,406
Available-for-sale financial assets	251,148	–	–	–	–	251,148
Bills receivable	–	1,578,473	–	–	–	1,578,473
Trade receivables and long-term trade receivables	7,346,564	2,625,931	295,622	163,744	220,660	10,652,521
Factored trade receivables and factored long-term trade receivables	–	1,074,309	661,971	144,227	695,771	2,576,278
Other receivables (excluding dividends receivable)	755,813	–	–	–	–	755,813
	19,697,685	5,414,959	957,593	307,971	916,431	27,294,639

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2008 (continued)

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	6,019,226	1,065,879	10,630	287,154	7,382,889
Bills payable	—	6,318,059	—	—	—	6,318,059
Trade payables	9,495,946	—	—	—	—	9,495,946
Bank advances on factored trade receivables and long-term trade receivables	—	1,774,741	74,336	165,110	934,319	2,948,506
Other payables (excluding accruals)	1,205,453	—	—	—	—	1,205,453
Derivative financial liabilities	—	12,560	—	—	—	12,560
Bonds cum warrants	—	32,000	32,000	32,000	4,064,000	4,160,000
Long-term financial guarantee contract	80,866	—	—	—	—	80,866
	10,782,265	14,156,586	1,172,215	207,740	5,285,473	31,604,279

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the ends of the reporting periods were as follows:

	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings	**9,242,861**	6,957,032
Total equity	**17,948,866**	15,183,547
Total equity and interest-bearing bank borrowings	**27,191,727**	22,140,579
Gearing ratio	**34%**	31%

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liabilities bearing interest at floating rates.

On 31 December 2009, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 2% and 11.50%. On 31 December 2009, approximately 55% (2008: 46%) of the Group's interest-bearing borrowings bore interests at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in US$. If the bank loan interest rate and the variable rate generally increase or decrease 0.25%, the Group's profit before tax and shareholders' equity will accordingly decrease by RMB9,895,000 and increase by RMB3,700,000 for the years ended 31 December 2009 and 2008, respectively.

Notes to Financial Statements

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Foreign currency risk

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow resulting from changes in foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in US$ and RMB and certain portion of the bank loans is denominated in US$. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in interest rates may lead to the changes in the Group's profit before tax, with all other variables held constant, as at the balance sheet date.

	Increase/ decrease in US dollars exchange rate	Impact on the Group's profit before tax
2009		
Weaker RMB against US dollars	**+3%**	**(60,243)**
Stronger RMB against US dollars	**-3%**	**60,243**
2008		
Weaker RMB against US dollars	+3%	26,855
Stronger RMB against US dollars	-3%	(26,855)

	Increase/ decrease in EUR exchange rate	Impact on the Group's profit before tax
2009		
Weaker RMB against EUR	**+5%**	**106,988**
Stronger RMB against EUR	**-5%**	**(106,988)**
2008		
Weaker RMB against EUR	+5%	61,722
Stronger RMB against EUR	-5%	(61,722)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Notes to Financial Statements

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XII. COMPARATIVE DATA

Certain comparative data have been restated to conform with the presentation requirements for the current year.

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	2009			2008		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**6,301,758**	**1.0000**	**6,301,758**	3,380,510	1.0000	3,380,510
USD	**1,590,189**	**6.8282**	**10,858,129**	1,173,369	6.8346	8,019,507
EUR	**222,036**	**9.7971**	**2,175,309**	164,686	9.6590	1,590,702
Others			**221,935**			195,923
			19,557,131			13,186,642

Aging analysis of trade receivables:

	2009	2008
Within 1 year	**15,008,812**	11,239,738
1–2 years	**3,567,732**	1,939,666
2–3 years	**1,350,116**	765,127
Over 3 years	**1,015,890**	475,326
	20,942,550	14,419,857
Less: Bad debt provision for trade receivables	**1,385,419**	1,233,215
	19,557,131	13,186,642

	2009				2008			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**Percentage (%)**	**Amount**	**Charge ratio (%)**	Amount	Percentage (%)	Amount	Charge ratio (%)
Individually significant	**9,882,922**	**47**	**906,321**	**9**	7,993,118	55	780,827	10
Individually insignificant but collectively significant with group of similar credit risk characteristics	**11,059,628**	**53**	**479,098**	**4**	6,426,739	45	452,388	7
	20,942,550	**100**	**1,385,419**		14,419,857	100	1,233,215	

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

1. Trade receivables (continued)

Movements in provisions for trade receivables:

	Opening balance of the year	Provision for the year	Reduction during the year		Closing balance of the year
			Write-back	Write-off	
2009	**1,233,215**	**395,054**	**—**	**(242,850)**	**1,385,419**
2008	887,848	345,367	—	—	1,233,215

	2009	2008
Total trade receivables from top five accounts	**7,606,385**	3,765,089
As a percentage of total trade receivables	**36.32%**	26.11%

As at 31 December 2009, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2008: Nil).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables" amounting to RMB2,727,445,000 (31 December 2008: RMB1,783,941,000).

2. Other receivables

The aging analysis of other receivables:

	2009	2008
Within 1 year	**2,448,301**	1,082,947
1 to 2 years	**671,281**	228,207
2 to 3 years	**111,623**	28,393
Over 3 years	**9,162**	102,630
	3,240,367	1,442,177
Less: Bad debt provision for other receivables	**—**	—
	3,240,367	1,442,177

	2009	2008
Total other receivables from top five accounts	**2,402,956**	1,176,885
As a percentage of total amounts of other receivables	**74.16%**	81.60%

As at 31 December 2009, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2008: Nil).

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

3. Available-for-sale financial assets

	2009	2008
Available-for-sale equity instruments	**244,448**	243,198

2009

	Opening balance	Additions	Reductions	Closing balance
深圳市創新投資集團有限公司	**5,000**	**1,250**	**—**	**6,250**
北京中視聯數字系統有限公司	**3,240**	**—**	**—**	**3,240**
Beijing Zhongxing Intelligent Transportation Systems Limited	**1,024**	**—**	**—**	**1,024**
中移鼎訊通信股份有限公司	**32,000**	**—**	**—**	**32,000**
貴州艾瑪特信息超市項目開發有限公司	**200**	**—**	**—**	**200**
航天科技投資控股有限公司	**201,734**	**—**	**—**	**201,734**
	243,198	**1,250**	**—**	**244,448**

2008

	Opening balance	Additions	Reductions	Closing balance
深圳市創新投資集團有限公司	5,000	—	—	5,000
北京中視聯數字系統有限公司	3,240	—	—	3,240
Beijing Zhongxing Intelligent Transportation Systems Limited	1,024	—	—	1,024
中移鼎訊通信股份有限公司	32,000	—	—	32,000
貴州艾瑪特信息超市項目開發有限公司	200	—	—	200
航天科技投資控股有限公司	—	201,734	—	201,734
	41,464	201,734	—	243,198

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

4. Long-term receivables

	2009	2008
Loans granted to subsidiaries (Note 1)	**1,011,281**	654,018
Installment payments for the provision of telecommunication system construction projects	**410,422**	696,908
Less: Bad debt provision for long-term receivables	**73,771**	136,888
	1,347,932	1,214,038

Note 1: Loans granted to subsidiaries were interest-free, unsecured and had no fixed term of repayment. The Directors are of the view that the advances were deemed loans similar to equity granted to subsidiaries.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision for the year	Reduction during the year: Write-back	Reduction during the year: Write-off	Closing balance
2009	**136,888**	**—**	**(63,117)**	**—**	**73,771**
2008	181,388	—	(44,500)	—	136,888

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables" amounting to RMB3,093,629,000 (31 December 2008: RMB753,568,000).

5. Long-term equity investments

		2009	2008
Equity method			
Associates	(1)	**348,665**	92,127
Cost method			
Subsidiaries	(2)	**1,948,720**	1,768,698
Less: Provision for impairment in long-term equity investments	(3)	**100,748**	113,065
		2,196,637	1,747,760

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

5. Long-term equity investments (continued)

2009

(1) Associates

	Initial investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Nationz Technologies Inc.	30,000	27,457	33,671	61,128	26.67%	26.67%	–
KAZNURTEL Limited Liability Company	1,012	2,477	–	2,477	49%	49%	–
中興軟件技術(南昌)有限公司	4,500	3,398	(3,398)	–	30%	30%	–
Zhongxing Energy Company Limited	60,000	55,503	224,755	280,258	23.26%	23.26%	–
思卓中興(杭州)科技有限公司	3,380	3,292	(488)	2,804	49%	49%	–
上海中興群力信息科技有限公司	2,000	–	1,998	1,998	40%	40%	–
		92,127	256,538	348,665			–

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

5. Long-term equity investments (continued)

2009 (continued)

(2) Subsidiaries

	Initial investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE Kangxun Telecom Company, Limited	45,000	45,000	–	45,000	90%	90%	–
ZTE (USA) Inc.	5,381	5,381	14	5,395	100%	100%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	3,920	3,920	2,580	6,500	65%	65%	2,600
ZTE (H.K.) Limited	53,200	449,364	–	449,364	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	15,698	15,698	(4,369)	11,329	51%	51%	3,172
Telrise (Cayman) Telecom Ltd.	15,770	21,165	–	21,165	100%	100%	–
Shenzhen Guoxin Electronics Development Company Limited	9,700	29,700	(20,000)	9,700	99%	99%	–
Congo-Chine Telecom S.A.R.L	55,800	55,800	17,036	72,836	51%	51%	1,081
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	–	3,900	65%	65%	–
Shenzhen Zhongxing Mobile Technology Company Limited	45,799	45,799	(14,133)	31,666	80%	80%	15,833
ZTEsoft Technology Company Limited	24,282	23,982	21,507	45,489	76%	76%	22,800
ZTE (UK) Ltd.	4,533	5,286	(755)	4,531	100%	100%	–
ZTE Do Brasil LTDA	10,058	18,573	–	18,573	100%	100%	–
Shenzhen Zhongxing Software Company Limited	38,609	36,500	–	36,500	98%	98%	–
ZTE Integration Telecom Limited	41,250	41,261	(11)	41,250	80%	80%	–
ZTE Wistron Telecom AB	2,445	3,137	(3,023)	114	100%	100%	–
ZTE-Communication Technologies, Ltd.	4,188	4,188	2,394	6,582	100%	100%	–
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	–	41	100%	100%	–
Shenzhen Changfei Investment Company Limited	15,300	15,300	–	15,300	51%	51%	3,825
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	2,971	2,308	5,279	93%	93%	–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2009 (continued)

(2) Subsidiaries (continued)

	Initial investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Guangdong New Pivot Technology & Service Company Limited	13,500	13,500	(9,000)	4,500	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	990,000
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	5,100	5,100	–	5,100	51%	51%	2,550
ZTE Holdings (Thailand) Co., Ltd.	10	10	(5)	5	100%	100%	–
ZTE (Thailand) Co., Ltd.	2,044	5,040	213	5,253	100%	100%	–
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	2,430
ZTE Telecom India Private Ltd.	196,826	196,826	61,535	258,361	100%	100%	–
ZTE Romania S.R.L.	827	827	–	827	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD.	496	496	–	496	100%	100%	–
ZiMax (Cayman) Holding Ltd.	45,485	45,485	(45,485)	–	–	–	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	11,396	11,396	(896)	10,500	70%	70%	–
Closed Joint Stock Company TK Mobile	4,258	4,258	12,612	16,870	51%	51%	–
PT. ZTE Indonesia	1,654	1,654	–	1,654	100%	100%	–
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	–	6,000	80%	80%	–
深圳市中聯成電子發展有限公司	600	600	1,500	2,100	100%	100%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
中興國通通訊裝備技術(北京)有限公司	2,000	–	2,000	2,000	51%	51%	–
Shenzhen Zhongxing ICT Company Limited	24,000	–	24,000	24,000	80%	80%	–
中興通訊(杭州)有限責任公司	100,000	–	100,000	100,000	100%	100%	–
深圳市中興和泰酒店投資管理有限公司	30,000	–	30,000	30,000	100%	100%	–
		1,768,698	180,022	1,948,720			1,044,291

The Company deregistered ZiMax (Cayman) Holding Ltd. in 2009. Please refer to Note IV. Scope of Consolidation of the Consolidated Financial Statements.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2009 (continued)

(3) Provisions for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Ltd.	12,970	—	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	—	3,900
Shenzhen Zhongxing Mobile Technology Company Limited	17,657	—	17,657
ZTE (UK) Ltd.	4,533	—	4,533
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
ZTE Wistron Telecom AB	2,030	—	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L.	827	—	827
ZTE (Malaysia) Corporation SDN.BHD.	496	—	496
ZiMax (Cayman) Holding Ltd.	12,317	(12,317)	—
	113,065	(12,317)	100,748

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2008

(1) Associates

	Initial investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Nationz Technologies Inc.	30,000	17,799	9,658	27,457	26.67%	26.67%	–
KAZNURTEL Limited Liability Company	1,012	2,477	–	2,477	49%	49%	–
中興軟件技術（南昌）有限公司	4,500	3,408	(10)	3,398	30%	30%	–
Zhongxing Energy Company Limited	60,000	60,000	(4,497)	55,503	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	3,380	–	3,292	3,292	49%	49%	–
		83,684	8,443	92,127			–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2008 (continued)

(2) subsidiaries

	Initial investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE Kangxun Telecom Company Limited	45,000	45,000	–	45,000	90%	90%	–
ZTE (USA) Inc.	5,381	5,381	–	5,381	100%	100%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	3,920	3,920	–	3,920	65%	65%	1,950
ZTE (H.K.) Limited	53,200	53,200	396,164	449,364	100%	100%	–
Anhui Wantong Posts and Telecommunications Company Limited	15,698	15,698	–	15,698	51%	51%	–
Telrise (Cayman) Telecom Ltd.	15,770	21,165	–	21,165	100%	100%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	99%	99%	–
Congo-Chine Telecom S.A.R.L	55,800	55,800	–	55,800	51%	51%	735
Yangzhou Zhongxing Mobile Telecom Equipment Company Limited	3,900	3,900	–	3,900	65%	65%	–
Shenzhen Zhongxing Mobile Telecom Company Limited	45,799	45,799	–	45,799	80%	80%	–
ZTEsoft Technology Company Limited	24,282	23,982	–	23,982	76%	76%	–
ZTE (UK) Ltd.	4,533	5,286	–	5,286	100%	100%	–
ZTE Do Brasil LTDA	10,058	18,573	–	18,573	100%	100%	–
Shenzhen Zhongxing Software Company Limited	38,609	36,500	–	36,500	98%	98%	1,168,000
ZTE Integration Telecom Company Limited	41,250	41,250	11	41,261	80%	80%	–
ZTE Wistron Telecom AB	2,445	3,137	–	3,137	100%	100%	–
ZTE-Communication Technologies, Ltd.	4,188	4,188	–	4,188	100%	100%	–
ZTE Corporation Mexico S. DE R. L DE C.V.	41	41	–	41	100%	100%	–
Shenzhen Changfei Investment Company Limited	15,300	15,300	–	15,300	51%	51%	3,060
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	2,971	–	2,971	93%	93%	–
Guangdong New Pivot Technology & Service Company Limited	13,500	13,500	–	13,500	90%	90%	–

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2008 (continued)

(2) subsidiaries (continued)

	Initial investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	5,100	5,100	–	5,100	51%	51%	–
ZTE Holdings (Thailand) Co., Ltd.	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	2,044	5,040	–	5,040	100%	100%	–
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	1,350
ZTE Telecom India Private Ltd.	1,654	1,654	195,172	196,826	100%	100%	–
ZTE Romania S.R.L.	827	827	–	827	100%	100%	–
ZTE (Malaysia) Corporation SDN.BHD.	496	496	–	496	100%	100%	–
ZiMax (Cayman) Holding Ltd.	45,485	45,485	–	45,485	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	11,396	11,396	–	11,396	70%	70%	–
Closed Joint Stock Company TK Mobile	4,258	4,258	–	4,258	51%	51%	–
PT. ZTE Indonesia	1,654	1,654	–	1,654	100%	100%	–
Shenzhen Zhongxing Netview Technology Company Limited	6,000	6,000	–	6,000	80%	80%	1,800
深圳市中聯成電子發展有限公司	–	600	–	600	100%	100%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	–	600,000	600,000	100%	100%	–
		577,351	1,191,347	1,768,698			1,176,895

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

2008 (continued)

(3) Provision for long-term equity investments

	Opening and closing balances
ZTE (USA) Inc.	5,381
Telrise (Cayman) Telecom Ltd.	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767
Yangzhou Zhongxing Mobile Telecom equipment Company Limited	3,900
Shenzhen Zhongxing Mobile Telecom Company Limited	17,657
ZTE (UK) Ltd.	4,533
ZTE Do Brasil LTDA	10,059
ZTE Integration Telecom Company Limited	4,591
ZTE Wistron Telecom AB	2,030
ZTE Corporation Mexico S. DE R. L DE C.V.	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971
Shenzhen Zhongxing Telecom Technology & Service Company Limited	9,656
ZTE Holdings (Thailand) Co., Ltd.	10
ZTE (Thailand) Co., Ltd.	205
ZTE Telecom India Private Ltd.	1,654
ZTE Romania S.R.L.	827
ZTE (Malaysia) Corporation SDN.BHD.	496
ZiMax (Cayman) Holding Ltd.	12,317
	113,065

6. Operating revenue and costs

Operating revenue is analysed as follows:

	2009	2008
Revenue	**55,008,957**	40,512,666
Other income	**48,731**	232,530
	55,057,688	40,745,196

Operating cost is analysed as follows:

	2009	2008
Costs of sales	**45,618,206**	33,447,784
Other operating expenses	**15,923**	7,413
	45,634,129	33,455,197

Sales to the top five customers of the Group generated revenue of RMB27,747,254,000 in 2009 (2008: RMB16,218,741,000), accounting for 50.44% (2008: 40.03%) of the operating revenue of the Group.

Notes to Financial Statements

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

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

7. Investment income

	2009	2008
Investment income from long-term equity investment under equity method	**12,089**	1,867
Investment income from long-term equity investment under cost method	**1,046,391**	1,178,495
Investment income/(loss) from the disposal of derivative financial instruments	**(10,210)**	88,497
Investment income from the disposal of long-term equity investments	**3,101**	—
	1,051,371	1,268,859

In 2009, investment income from long-term equity investments under cost method mainly comprised 2009 dividend distribution from Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited amounting to RMB990,000,000. In 2008, investment income from long-term equity investments under cost method mainly comprised 2008 dividend distribution from Shenzhen Zhongxing Software Company Limited amounting to RMB1,168,000,000.

As at 31 December 2009, the Company was not subject to significant restrictions in remitting its investment income.

8. Supplemental information on the cash flow statement

Reconciliation of net profit to cash flow from operating activities:

	2009	2008
Net profit	**733,826**	977,862
Add: Impairment losses	**492,847**	164,869
Depreciation of fixed assets	**390,489**	305,419
Amortisation of intangible assets and development cost	**107,273**	72,212
Loss on disposal of fixed assets, intangible assets and other long-term assets	**10,455**	17,879
Gain/(loss) from changes in fair value	**(12,560)**	136,203
Finance expenses	**634,029**	281,621
Investment income	**(1,051,371)**	(1,268,859)
Decrease/(increase) in deferred tax assets	**(151,355)**	53,048
Decrease in deferred tax liabilities	**(6,099)**	(20,581)
Increase in inventories	**(726,008)**	(1,704,141)
Increase in operating receivables	**(9,684,017)**	(3,523,209)
Increase in operating payables	**10,843,454**	8,795,736
Equity settled share expenses	**299,594**	299,551
Decrease/(increase) in cash subject to ownership restrictions	**(889,484)**	28,262
Net cash flows from operating activities	**991,073**	4,615,872

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Amount for 2009
Gain/(loss) from the disposal of non-current assets	(26,744)
Government grant recognized in current profit or loss	168,587
Net amount of other non-operating income and expenses	(1,184)
Effect of income tax	21,099
	119,560

Note 1: In 2009, software VAT rebates which were closely related to the ordinary business of the Company, in line with national policies and received on an ongoing basis, certain government grants for technology projects and gain/loss arising from forward currency contracts conducted for the purpose of locking up foreign exchange costs of businesses denominated in foreign currencies were classified as ordinary items.

The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 — Extraordinary Items" (CSRC Announcement [2008] No. 43).

2. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs. Ernst & Young is the auditor for the Group and Company's financial statements prepared under HKFRSs.

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2009

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	15.83%	1.40	1.35
Net profit after extraordinary items attributable to ordinary shareholders of the Company	15.06%	1.33	1.28

Supplementary Information to Financial Statements

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

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE (continued)

2008

	Weighted average return on net assets (%)	Earnings per share (Restated) Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	12.36%	0.95	0.93
Net profit after extraordinary items attributable to ordinary shareholders of the Company	11.52%	0.89	0.86

4. ANALYSIS OF CHANGE IN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Bills receivable	Mainly as a result of payment of certain commercial acceptances upon maturity
Trade receivables	Mainly as a result of growth in sales and the provision of more favourable payment terms to customers
Factored trade receivables	Mainly as a result of growth in sales and the corresponding increase in factored trade receivables
Other receivables	Mainly as a result of the increase in export tax rebates receivable
Amount due from customers for contract works	Mainly as a result of higher-than-expected proportion of contract completion ahead of progress billing schedules
Long-term trade receivables	Mainly as a result of recovery of certain contract amounts
Factored long-term trade receivables	Mainly as a result of growth in sales and the corresponding increase in factored trade receivables
Long-term equity investments	Mainly as a result of the increase in investments in associates
Construction in progress	Mainly as a result of the increase in expenditure for the construction of staff quarters, R&D centres and training centres
Development costs	Mainly as a result of capitalisation of R&D expenses in communications systems and certain handset products

Supplementary Information to Financial Statements

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

4. ANALYSIS OF CHANGE IN FINANCIAL STATEMENT ITEMS (continued)

Balance sheet items	Analysis of reasons
Deferred tax assets	Mainly as a result of the increase in deferred tax assets recognized in respect of unrealised profits arising on consolidation and foreseeable contract losses
Long-term deferred assets	Mainly as a result of amortisation of long-term deferred assets for the period
Other non-current assets	Mainly as a results of non-current funds derived from factored trade receivable arrangements
Bank advances on factored trade receivables	Mainly as a result of growth in sales and the increase in factored trade receivables
Derivative financial liabilities	Mainly as a result of settlement of forward currency contracts upon maturity
Bills payable	Mainly as a result of the increase in raw materials purchases and increased use of bills to settle payments
Trade payables	Mainly as a result of the increase in raw materials purchases
Advances from customers	Mainly as a result of growth in sales and the increase in prepayments for new contracts
Staff and welfare payable	Mainly as a result of the increase in salaries, bonus, relevant labour union funds and staff education funds payable
Taxes payable	Mainly as a result of the decrease in deductible Input VAT tax and the increase in income tax payable
Other payables	Mainly as a result of the increase in accruals and deposits received
Deferred income	Mainly as a result of the increase in government grants relating to assets
Long-term loans	Mainly as a result of the increase in loans to meet funding requirements in the medium to long term
Bank advances on long-term factored trade receivables	Mainly as a result of growth in sales and the corresponding increase in factored trade receivables
Specific payables	Mainly as a result of the transfer of CASIC specific payables to the capital reserve
Other non-current liabilities	Mainly as a result of the increase in factored finance costs payable

Supplementary Information to Financial Statements

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

4. ANALYSIS OF CHANGE IN FINANCIAL STATEMENT ITEMS (continued)

Balance sheet items	Analysis of reasons
Share capital	Mainly as a result of the implementation of the Company's 2008 profit distribution plan and the one-off registration of all subject shares under the Phase I Share Incentive Scheme of the Company
Retained profits	Mainly as a result of the increase of net profit attributable to owners of the parent
Proposed final dividends	Mainly as a result of the distribution of dividends for the period

Income statement items	Analysis of reasons
Operating revenue	Mainly as a result of expanded sales
Operating costs	Mainly as a result of expanded sales
Taxes and surcharges	Mainly as a result of the increase in income subject to business tax
Selling and distribution costs	Mainly as a result of expanded business scale
Research and development costs	Mainly as a result of expanded business scale and the increase in R&D investment
Finance expenses	Mainly as a result of interest expense and banking fees partially offset by exchange gains derived from exchange rate fluctuations
Impairment losses	Mainly as a result of the increase in bad debt provision
Gains/(losses) from changes in fair values	Mainly as a result of the settlement of forward currency contract upon maturity
Investment income	Mainly as a result of investment losses arising from the settlement of forward currency contract upon maturity
Non-operating expenses	Mainly as a result of the increase in compensation payments
Income tax	Mainly as a result of growth in pre-tax profit and profit of certain subsidiaries
Net profit attributable to owners of the parent	Mainly as a result of growth in sales and the decrease in expenses for the period
Other comprehensive income	Mainly reflecting gains arising from the translation of accounts denominated in foreign currencies
Comprehensive income attributable to owners of the parent	Mainly as a result of the increase in net profit attributable to owners of the parent and exchange differences

Cash flow statement item	Analysis of reasons
Net cash flows from financing activities	Mainly as a result of the issue of bonds cum warrants in the prior year

Independent Auditors' Report

To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

We have audited the financial statements of ZTE Corporation set out on pages 249 to 335, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (continued)

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central

Hong Kong
8 April 2010

Consolidated Statement of Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**60,272,563**	44,293,427
Cost of sales		**(41,667,788)**	(29,911,471)
Gross profit		**18,604,775**	14,381,956
Other income and gains	5	**1,723,498**	1,295,715
Research and development costs		**(5,781,583)**	(3,994,145)
Selling and distribution costs		**(7,157,844)**	(5,400,967)
Administrative expenses		**(2,735,186)**	(2,190,037)
Other expenses		**(603,176)**	(1,159,682)
Finance costs	7	**(751,744)**	(690,174)
Share of profits and losses of associates		**26,002**	19,877
PROFIT BEFORE TAX	6	**3,324,742**	2,262,543
Income tax expense	10	**(629,081)**	(350,608)
PROFIT FOR THE YEAR		**2,695,661**	1,911,935
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**8,644**	(181,500)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**8,644**	(181,500)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,704,305**	1,730,435
Profit attributable to:			
Owners of the parent	11	**2,458,121**	1,660,199
Minority interests		**237,540**	251,736
		2,695,661	1,911,935
Total comprehensive income attributable to:			
Owners of the parent		**2,486,224**	1,477,615
Minority interests		**218,081**	252,820
		2,704,305	1,730,435
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB1.40**	RMB0.95
Diluted		**RMB1.35**	RMB0.93

Details of dividends payable and proposed for the year are set out in Note 12 to the financial statements.

Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**6,057,574**	4,892,515
Prepaid land lease payments	16	**503,771**	508,389
Intangible assets	17	**877,397**	592,974
Investments in a jointly-controlled entity	19	**2,255**	2,255
Investments in associates	20	**438,027**	166,178
Available-for-sale investments	21	**253,760**	251,148
Long-term trade receivables	24	**383,749**	612,008
Factored long-term trade receivables	25	**2,968,629**	753,568
Deferred tax assets	36	**643,918**	400,265
Pledged deposits	28	**608,359**	—
Total non-current assets		**12,737,439**	8,179,300
CURRENT ASSETS			
Prepaid land lease payments	16	**10,980**	10,527
Inventories	22	**9,324,800**	8,978,036
Amount due from customers for contract works	23	**11,388,496**	7,894,010
Trade and bills receivables	24	**16,098,327**	11,550,968
Factored trade receivables	25	**2,870,221**	1,658,941
Prepayments, deposits and other receivables	26	**2,537,793**	2,476,642
Pledged deposits	28	**420,986**	136,246
Cash and cash equivalents	28	**14,075,822**	11,344,160
Total current assets		**56,727,425**	44,049,530
CURRENT LIABILITIES			
Trade and bills payables	29	**21,531,665**	15,814,005
Amount due to customers for contract works	23	**2,519,706**	2,965,582
Other payables and accruals	30	**7,285,229**	4,661,469
Derivative financial instruments	27	**—**	12,560
Interest-bearing bank borrowings	31	**6,846,468**	5,664,485
Bank advances on factored trade receivables	25	**2,870,221**	1,658,941
Tax payable		**1,147,347**	559,953
Dividends payable		**16,966**	22,750
Total current liabilities		**42,217,602**	31,359,745
NET CURRENT ASSETS		**14,509,823**	12,689,785
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,247,262**	20,869,085

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Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,247,262**	20,869,085
NON-CURRENT LIABILITIES			
Bonds cum warrants	32	**3,632,681**	3,514,652
Interest-bearing bank borrowings	31	**2,396,393**	1,292,547
Deferred tax liabilities	36	**3,924**	5,019
Bank advances on factored long-term trade receivables	25	**2,968,629**	753,568
Financial guarantee contract	42	**3,689**	3,689
Provision for retirement benefits	33	**38,028**	36,063
Other long-term payables	34	**255,052**	80,000
Total non-current liabilities		**9,298,396**	5,685,538
Net assets		**17,948,866**	15,183,547
EQUITY			
Equity attributable to owners of the Company			
Issued capital	37	**1,831,336**	1,343,330
Restricted Shares subject to lock-up	40	**(447,235)**	—
Equity component of bonds cum warrants	32	**580,210**	580,210
Reserves	39(a)	**14,308,531**	11,923,005
Proposed final dividends	12	**552,425**	402,999
		16,825,267	14,249,544
Minority interests		**1,123,599**	934,003
Total equity		**17,948,866**	15,183,547

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

		Attributable to owners of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Equity component of bonds cum warrants RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained Profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008		959,522	5,507,184	–	300,148	1,364,758	(65,562)	3,831,231	239,880	12,137,161	751,247	12,888,408
Total comprehensive income for the year		–	–	–	–	–	(182,584)	1,660,199	–	1,477,615	252,820	1,730,435
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	(4,324)	(4,324)
Effect of changes of other equity holders' interests in associates by the equity method		–	4,763	–	–	–	–	–	–	4,763	–	4,763
Dividends declared to minority shareholders		–	–	–	–	–	–	–	–	–	(50,080)	(50,080)
Final 2007 dividend declared		–	–	–	–	–	–	–	(239,880)	(239,880)	–	(239,880)
Disposal of subsidiaries		–	(9,876)	–	–	–	–	–	–	(9,876)	(15,660)	(25,536)
Issue of bonds cum warrants	32	–	–	580,210	–	–	–	–	–	580,210	–	580,210
Share Incentive Scheme:	38											
– Equity settled share expense		–	–	–	299,551	–	–	–	–	299,551	–	299,551
Proposed final 2008 dividend	12	–	–	–	–	–	–	(402,999)	402,999	–	–	–
Transfer from capital reserve		383,808	(383,808)	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	67,062	–	(67,062)	–	–	–	–
At 31 December 2008		1,343,330	5,118,263*	580,210	599,699*	1,431,820*	(248,146)*	5,021,369*	402,999	14,249,544	934,003	15,183,547

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Consolidated Statement of Changes in Equity (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	Attributable to owners of the parent											
		Issued capital RMB'000	Capital reserve RMB'000	Equity component of bonds cum warrants RMB'000	Share Incentive Scheme reserve RMB'000	Shares subject to lock-up under the Share Incentive Scheme RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2009		1,343,330	5,118,263	580,210	599,699	–	1,431,820	(248,146)	5,021,369	402,999	14,249,544	934,003	15,183,547
Total comprehensive income for the year		–	–	–	–	–	–	28,103	2,458,121	–	2,486,224	218,081	2,704,305
Acquisition of minority interests		–	–	–	–	–	–	–	–	–	–	(7,226)	(7,226)
Effect of changes of other equity holders' interests in associates by the equity method		–	1,095	–	–	–	–	–	–	–	1,095	–	1,095
Dividends declared to minority shareholders		–	–	–	–	–	–	–	–	–	–	(38,379)	(38,379)
Capital contributions by minority shareholders		–	–	–	–	–	–	–	–	–	–	22,070	22,070
Final 2008 dividend declared		–	–	–	–	–	–	–	–	(402,999)	(402,999)	–	(402,999)
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	–	(4,950)	(4,950)
Share Incentive Scheme:	38												
– Equity settled share expense		–	–	–	299,594	–	–	–	–	–	299,594	–	299,594
– Proceeds from shares issued	37	85,007	692,466	–	(218,429)	(447,235)	–	–	–	–	111,809	–	111,809
Proposed final 2009 dividend	12	–	–	–	–	–	–	–	(552,425)	552,425	–	–	–
Transfer from capital reserve	37	402,999	(402,999)	–	–	–	–	–	–	–	–	–	–
Subsidy in investment nature	34	–	80,000	–	–	–	–	–	–	–	80,000	–	80,000
Transfer from retained profits		–	–	–	–	–	73,383	–	(73,383)	–	–	–	–
At 31 December 2009		1,831,336	5,488,825*	580,210	680,864*	(447,235)	1,505,203*	(220,043)*	6,853,682*	552,425	16,825,267	1,123,599	17,948,866

* These reserve accounts comprise the consolidated reserves of approximately RMB14,308,531,000 (2008: RMB11,923,005,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,324,742**	2,262,543
Adjustments for:			
Finance costs	7	**751,744**	690,174
Share of profits and losses of associates		**(26,002)**	(19,877)
Bank and other interest income	5	**(110,715)**	(112,786)
Dividend income	5	**(2,100)**	(3,257)
Loss on disposal of items of property, plant and equipment	6	**26,692**	36,918
Loss on disposal of intangible assets	6	**52**	236
Loss/(gain) on disposal of subsidiaries	6, 5	**6,069**	(26,300)
Loss/(gain) on financial derivative instruments		**(2,398)**	55,096
Government grants	5	**(167,034)**	(131,037)
Depreciation	6	**771,671**	587,640
Recognition of prepaid land lease payments	16	**38,510**	1,448
Amortisation of intangible assets	17	**142,840**	114,985
Write-down/(reversal of write-down) of inventories to net realisable value	6	**281,835**	(53,596)
Impairment of trade receivables	6	**456,105**	472,954
Equity settled share expense	6	**299,594**	299,551
		5,791,605	4,174,692
Increase in inventories		**(628,599)**	(1,494,937)
Increase in the amount due from customers for contract works		**(3,494,486)**	(1,353,792)
Increase in trade and bills receivables		**(5,066,818)**	(3,274,579)
(Increase)/decrease in long-term trade receivables		**291,613**	(25,137)
Increase in factored trade receivables		**(1,211,280)**	(1,505,273)
(Increase)/decrease in factored long-term trade receivables		**(2,215,061)**	2,389,141
(Increase)/decrease in prepayments, deposits and other receivables		**(226,064)**	151,271
Decrease in a loan receivable		**—**	13,466
Increase in trade and bills payables		**5,553,977**	4,030,531
Increase/(decrease) in the amount due to customers for contract works		**(445,876)**	1,368,268
Increase in other payables and accruals		**2,825,733**	104,199
Increase in provision for retirement		**1,965**	—
Increase/(decrease) in bank advances on factored trade receivables		**3,426,341**	(883,868)
Cash generated from operations		**4,603,050**	3,693,982
Interest received		**110,173**	112,786
Interest and other finance costs paid		**(597,847)**	(522,091)
Hong Kong profits tax paid		**(7,725)**	(5,535)
PRC taxes paid		**(240,976)**	(244,505)
Overseas taxes paid		**(37,734)**	(39,613)
Dividends paid		**(402,935)**	(239,880)
Dividends paid to minority shareholders		**(44,227)**	(68,510)
Net cash flows from operating activities		**3,381,779**	2,686,634

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(34,345)**	(372,474)
Purchases of items of property, plant and equipment		**(1,592,140)**	(1,229,579)
Purchase of intangible assets		**(427,339)**	(309,870)
Proceeds from disposal of items of property, plant and equipment		**1,011**	47,805
Receipt of government grants		**195,583**	93,623
Investments in associates		**(248,507)**	(10,675)
Purchases of available-for-sale investments		**(2,612)**	(205,164)
Acquisition of minority interests		**(5,144)**	(4,324)
Disposal of subsidiaries		**12,933**	15,392
Dividend received in associates		**3,110**	—
Dividend received in available-for-sale investments		**2,100**	3,257
(Payment for)/proceeds from settlement of derivative financial instruments		**(10,162)**	73,232
Proceeds from disposal of prepaid land lease payments		**—**	4,749
(Increase)/decrease in pledged bank deposits		**(893,099)**	37,175
Net cash flows used in investing activities		**(2,998,611)**	(1,856,853)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Share Incentive Scheme		**24,301**	43,342
Proceeds from issue of bonds cum warrants		**—**	3,961,444
Capital contribution by minority shareholders		**22,070**	—
New bank loans		**9,721,064**	9,365,004
Repayment of bank loans		**(7,435,235)**	(8,896,625)
Net cash flows from financing activities		**2,332,200**	4,473,165
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,715,368**	5,302,946
Cash and cash equivalents at beginning of year		**11,344,160**	6,309,749
Effect of foreign exchange rate changes, net		**16,294**	(268,535)
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**14,075,822**	11,344,160
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**14,038,754**	11,336,404
Non-pledged time deposits with original maturity of less than three months when acquired		**37,068**	7,756
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**14,075,822**	11,344,160

Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**3,986,236**	2,964,461
Prepaid land lease payments	16	**423,332**	460,116
Intangible assets	17	**200,108**	195,002
Interests in subsidiaries	18	**2,859,253**	2,309,651
Investments in associates	20	**327,127**	85,162
Available-for-sale investments	21	**244,448**	243,198
Long-term trade receivables	24	**336,652**	560,019
Factored long-term trade receivables	25	**3,093,629**	753,568
Deferred tax assets	36	**382,537**	231,182
Pledged deposits	28	**608,359**	—
Total non-current assets		**12,461,681**	7,802,359
CURRENT ASSETS			
Prepaid land lease payments	16	**9,296**	9,530
Inventories	22	**4,747,278**	5,211,017
Amount due from customers for contract works	23	**10,829,088**	8,038,449
Trade and bills receivables	24	**20,229,505**	14,700,000
Factored trade receivables	25	**2,727,445**	1,783,941
Prepayments, deposits and other receivables	26	**5,489,906**	2,882,690
Pledged deposits	28	**288,647**	7,522
Cash and cash equivalents	28	**9,808,228**	8,323,750
Total current assets		**54,129,393**	40,956,899
CURRENT LIABILITIES			
Trade and bills payables	29	**27,307,706**	19,484,293
Derivative financial instruments	27	**—**	12,560
Amount due to customers for contract works	23	**2,153,082**	2,408,455
Other payables and accruals	30	**8,742,566**	6,563,030
Interest-bearing bank borrowings	31	**4,593,580**	1,947,213
Bank advances on factored trade receivables	25	**2,727,445**	1,783,941
Tax payable		**706,739**	394,803
Dividends payable		**75**	10
Total current liabilities		**46,231,193**	32,594,305
NET CURRENT ASSETS		**7,898,200**	8,362,594
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,359,881**	16,164,953

continued/...

Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,359,881**	16,164,953
NON-CURRENT LIABILITIES			
Bonds cum warrants	32	**3,632,681**	3,514,652
Interest-bearing bank borrowings	31	**1,742,512**	1,005,039
Bank advances on factored long-term trade receivables	25	**3,093,629**	753,568
Financial guarantee contract	42	**3,689**	3,689
Provision for retirement benefits	33	**38,028**	36,063
Other long-term payables	34	**255,052**	80,000
Deferred tax liabilities	36	**1,143**	7,242
Total non-current liabilities		**8,766,734**	5,400,253
Net assets		**11,593,147**	10,764,700
EQUITY			
Issued capital	37	**1,831,336**	1,343,330
Shares subject to lock-up under the Share Incentive Scheme	40	**(447,235)**	—
Equity component of bonds cum warrants	32	**580,210**	580,210
Reserves	39(b)	**9,076,411**	8,438,161
Proposed final dividends	12	**552,425**	402,999
Total equity		**11,593,147**	10,764,700

Hou Weigui
Director

Shi Lirong
Director

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment and solutions.

In the opinion of the directors, in accordance with the Chapter 8 Qualifications for Listing of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS *27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1(Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising On Liquidation*
HK(IFRIC) — Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) — Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
HK(IFRIC) — Int 13	*Customer Loyalty Programmes*
HK(IFRIC) — Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC) — Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC) — Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008)	*Amendments to a number of HKFRSs*

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) **Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the statement of comprehensive income in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. The amendments have had no impact on the financial position or results of operations of the Group.

(b) **Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations***

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) **Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments***

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. During the year ended 31 December 2009, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3.

(d) **HKFRS 8 *Operating Segments***

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(e) **HKAS 1 (Revised) *Presentation of Financial Statements***

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

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2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(f) Amendment to Appendix to HKAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC) — Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*

The amendment to HK(IFRIC) — Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC) — Int 13 *Customer Loyalty Programmes*

HK(IFRIC) — Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC) — Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC) — Int 15 replaces HK Interpretation 3 *Revenue — Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(l) HK(IFRIC) — Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC) — Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to profit or loss as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC) — Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC) — Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.
- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.
- HKAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.
- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".
- HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
HKFRS 1 Amendments	*Limited Exception from Comparative HKFRS 7 Disclosures for First-time Adopters*[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
HK(IFRIC) — Int 14 Amendments	Amendments to HK(IFRIC) — Int 14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC) — Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC) — Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC) — Int 9 and HK(IFRIC) — Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

HKFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions in HKFRS 7 as they relate to the March 2009 amendments. In addition, the transitional provisions in IFRS 7 are amended to clarify that the disclosures required by the March 2009 amendments need not be provided for: 1) Annual or interim periods, including any statement of financial position, presented within an annual comparative period ending before 31 December 2009. 2) Any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009. As the Group is not a first-time adopter of HKFRSs, the amendments are not applicable to the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC) — Int 8 *Scope of HKFRS 2* and HK(IFRIC) — Int 11 *HKFRS 2 — Group and Treasury Share Transactions*. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

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

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

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

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. The amendment will not have any material financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The HK(IFRIC) — Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the HK(IFRIC) — Int 14 Amendments from 1 January 2011. The amendments will not have any material financial impact on the Group.

HK(IFRIC) — Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC) — Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 2 *Share-based Payment:* Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

(b) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that (i) the disclosures required in respect of non-current assets classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:

  (i) those HKFRSs specifically require disclosures in respect of non-current assets classified as held for sale or discontinued operations; or

  (ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) HKFRS 8 *Operating Segments:* Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

(d) HKAS 1 *Presentation of Financial Statements:* States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

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

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

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

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(g) HKAS 36 *Impairment of Assets:* Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

(h) HKAS 38 *Intangible Assets:* Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) HKAS 39 *Financial Instruments: Recognition and Measurement:* Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

(j) HK(IFRIC) — Int 9 *Reassessment of Embedded Derivatives:* Clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

(k) HK(IFRIC) — Int 16 *Hedges of a Net Investment in a Foreign Operation:* Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 or loss to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transaction between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transaction between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	30 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 10 years.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Operating concession

Operating concession represents the right to operate a telecommunications operator, and is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis over 20 years, being the period that the operating concession granted to the Group.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include available-for-sale investments, trade and bills receivables, long-term trade receivables, factored trade receivables, pledged deposits, cash and cash equivalents, deposits and other receivables, due from related companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, trade and bills payable, bank advances on factored trade receivables, interest-bearing bank borrowings, financial guarantee contract, bond cum warrants, receipt in advance, other payables, factoring costs payable, due to the controlling shareholder and due to related companies.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Bonds cum warrants

The component of bonds cum warrants that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of bonds cum warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds cum warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other pricing models.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Notes to Financial Statements

2.4 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 fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications 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 system contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where an economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract works.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Provisions for warranties granted by the Group on handsets are recognised based on sales volume and past experience of the level of repairs and returns.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

The Group received government grants primarily for the Group's contribution and commitment on research and development activities.

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to other payables or other long-term payable accounts and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) income from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis, (ii) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (iii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or element based on relative fair values. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. So long as elements otherwise governed by separate authoritative accounting standards cannot be treated as separate units of accounting, the elements are combined into a single unit of accounting for revenue recognition purposes. In this case, revenue allocated to the unit of accounting is deferred until all combined elements have been delivered or, once there is only one remaining element to be delivered, based on the revenue recognition guidance applicable to the last delivered element within the unit of accounting.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to the statement of comprehensive income as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Defined benefit pension scheme

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefit pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefit pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous period exceeded 10% of the defined benefit obligation at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the plan.

Past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension scheme, past service costs are recognised immediately.

The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognised. The value of any defined benefit asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the scheme or reductions in the future contributions to the plan.

Share-based payment transactions

The Company operates a Share Incentive Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 38.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding Subject Shares is reflected as additional share dilution in the computation of earnings per share.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than the Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income and expenses are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, the Group's revenue recognition policies can differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, the Group's revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables which are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- whether the delivered item has value to the customer on a stand-alone basis;
- whether there is objective and reliable evidence of the fair value of the undelivered item(s); and

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

- whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether fair value can be established on undelivered obligations and/or whether delivered elements have stand-alone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

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

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

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the HKAS 11 *Construction Contracts*, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billing are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project that are unbilled, are accumulated in the contracts in progress account included in the amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within the amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 *Revenue*, where revenue is recognised provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectability is reasonably assured.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss, and the title in certain jurisdictions have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because the legal title or risk of loss on products has not been transferred to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when the title or risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to the Group's material revenue streams, please refer to note 2.4 to these consolidated financial statements.

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of intangible assets and property, plant and equipment

The Group determines whether intangible assets and property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the intangible assets and property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment as at 31 December 2009 was approximately RMB6,057,574,000 (2008: RMB4,892,515,000). The carrying amount of intangible assets as at 31 December 2009 was RMB877,397,000 (2008: RMB592,974,000). More details are set out in notes 15 and 17.

Management carries out impairment review on intangible assets and property, plant and equipment by comparing the lower of their carrying amounts and their recoverable amounts respectively.

An impairment loss is recognised when the carrying amount of an item of intangible assets or property, plant and equipment exceeds the recoverable amount. An impairment loss is charged to profit or loss in the period in which it arises. Management assesses the recoverable amount by the higher of the fair value less costs to sell and the value in use of the item of intangible assets or property, plant and equipment.

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2009 was approximately RMB16,482,076,000 (2008: RMB12,162,976,000).

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Depreciation of property, plant and equipment

The Group's carrying amount of property, plant and equipment as at 31 December 2009 was approximately RMB6,057,574,000 (2008: RMB4,892,515,000). The Group depreciates items of property, plant and equipment on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual values, commencing from the date the items of property, plant and equipment are placed into productive use. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of these items of property, plant and equipment.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2009 was RMB42,450,000 (2008: RMB84,957,000). The amount of unrecognised tax losses at 31 December 2009 was RMB423,141,000 (2008: RMB362,606,000). Further details are contained in note 36 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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4. OPERATING SEGMENT INFORMATION (continued)

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

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

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

Year ended 31 December 2009	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	39,982,316	—	4,314,626	44,296,942
Sale of goods and services	—	13,071,519	2,904,102	15,975,621
	39,982,316	13,071,519	7,218,728	60,272,563
Segment results	8,814,294	1,738,784	1,358,831	11,911,909
Bank and other interest income				110,715
Dividend income and unallocated gains				1,612,783
Other unallocated expenses				(9,584,923)
Finance costs				(751,744)
Share of profits and losses of associates				26,002
Profit before tax				3,324,742
Segment assets	31,782,376	5,513,601	5,738,245	43,034,222
Investments in associates				438,027
Investments in a jointly-controlled entity				2,255
Other unallocated assets				25,990,360
Total assets				69,464,864
Segment liabilities	8,630,920	506,969	1,558,295	10,696,184
Unallocated liabilities				40,819,814
Total liabilities				51,515,998
Other segment information:				
Impairment losses recognised in profit or loss	489,518	160,040	88,382	737,940
Depreciation and amortisation	632,195	206,685	114,141	953,021
Capital expenditure	1,650,277	539,529	297,954	2,487,760

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2008	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	28,963,799	—	3,127,846	32,091,645
Sale of goods and services	—	9,692,563	2,509,219	12,201,782
	28,963,799	9,692,563	5,637,065	44,293,427
Segment results	6,888,262	1,087,853	1,004,874	8,980,989
Bank and other interest income				112,786
Dividend income and unallocated gains				1,182,929
Corporate and other unallocated expenses				(7,343,864)
Finance costs				(690,174)
Share of profits and losses of associates				19,877
Profit before tax				2,262,543
Segment assets	22,811,960	5,011,544	4,432,469	32,255,973
Investments in associates				166,178
Investments in a jointly-controlled entity				2,255
Corporate and other unallocated assets				19,804,424
Total assets				52,228,830
Segment liabilities	3,399,777	149,854	808,813	4,358,444
Unallocated liabilities				32,686,839
Total liabilities				37,045,283
Other segment information:				
Impairment losses recognised in profit or loss	274,221	91,767	53,370	419,358
Depreciation and amortisation	491,251	114,127	97,247	702,625
Capital expenditure	1,353,308	314,210	267,601	1,935,119

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2009 RMB'000	2008 RMB'000
The PRC (place of domicile)	**30,404,275**	17,466,429
Asia (excluding the PRC)	**13,198,605**	10,432,933
Africa	**6,860,602**	9,311,123
Other countries	**9,809,081**	7,082,942
	60,272,563	44,293,427

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

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
The PRC (place of domicile)	**5,352,373**	4,274,923
Asia (excluding the PRC)	**633,843**	513,702
Africa	**1,436,800**	1,192,552
Other countries	**15,726**	12,701
	7,438,742	5,993,878

Information about major customers

Three single customers individually accounted for more than 10% of the Group's consolidated revenues for 2009 in the amount of RMB24,145 million (2008: RMB13,540 million), from which telecommunication system contract revenue of approximately RMB10,239 million (2008: RMB6,044 million), RMB7,826 million (2008: RMB3,596 million), RMB6,080 million (2008: RMB3,900 million) were recognised, respectively.

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	2009 RMB'000	2008 RMB'000
Revenue		
Telecommunications system contracts[#]	**44,296,942**	32,091,645
Sale of goods	**13,073,619**	10,425,761
Sale of services	**2,902,002**	1,776,021
	60,272,563	44,293,427
Other income		
Government grants	**167,034**	131,037
VAT refunds and other tax subsidies[##]	**1,123,111**	949,103
Dividend income	**2,100**	3,257
Bank and other interest income	**110,715**	112,786
Others[###]	**101,276**	—
	1,504,236	1,196,183
Gains		
Gain on disposal of subsidiaries	**—**	26,300
Gain on derivative financial instruments	**12,560**	73,232
Exchange gain	**206,702**	—
	219,262	99,532
	1,723,498	1,295,715

[#] Included in the Group's telecommunications system contracts revenue is gain on factoring of accounts receivable to be settled by an Africa telecommunications operator of RMB825,603,000 (20008: Nil). Details of the arrangement are disclosed in note 25 to the financial statements.

[##] During the years ended 31 December 2009 and 2008, Zhongxing Software Company Limited ("Zhongxing Software") and ZTEsoft Technology Company Limited ("ZTEsoft") being designated software enterprises, were 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 the Shenzhen State Tax Bureau (深圳市國家税務局) and the Nanjing State Tax Bureau (南京市國家税務局) and had been received by Zhongxing Software and ZTEsoft.

[###] Others mainly represent gains on contract penalty income and other miscellaneous gains.

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6. PROFIT BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of goods and services		**38,285,841**	25,305,556
Depreciation	15	**771,671**	587,640
Amortisation of intangible assets other than deferred development costs	17	**42,422**	53,584
Research and development costs:			
Deferred development costs amortised**	17	**100,418**	61,401
Current year expenditure		**5,781,583**	3,994,145
Less: Government grants released	5	**(167,034)**	(131,037)
		5,714,967	3,924,509
Loss on financial derivative instruments		**10,162**	128,328
Impairment of trade receivables*	24	**456,105**	472,954
Provision for warranties**	35	**72,896**	135,045
Write-down/(reversal) of inventories to net realisable value**		**281,835**	(53,596)
Minimum lease payments under operating leases on land and buildings		**359,287**	325,356
Contingent rent receivable in respect of an operating lease	44(a)	**(43,587)**	(27,569)
Auditors' remuneration		**6,741**	6,933
Staff costs (including directors' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**8,202,158**	5,521,487
Equity-settled share expense		**299,594**	299,551
Retirement benefit scheme contributions:			
Defined benefit pension scheme	33	**2,788**	2,356
Defined contribution pension scheme		**404,608**	380,136
		8,909,148	6,203,530
Foreign exchange differences, net*		**—**	495,710
Loss on disposal of items of property, plant and equipment*		**26,692**	36,918
Loss on disposal of subsidiaries*		**6,069**	—
Loss on retirement and disposal of intangible assets*	17	**52**	236

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

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

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7. FINANCE COSTS

An analysis of finance costs is as follows:

		Group	
	Note	2009 RMB'000	2008 RMB'000
Interest on bank loans wholly repayable within five years		**255,710**	308,578
Interest on bonds cum warrants	32	**150,029**	133,418
Total interest expense on financial liabilities not at fair values through profit or loss		**405,739**	441,996
Other finance costs:			
Finance costs on trade receivables and bills discounted		**346,005**	248,178
		751,744	690,174

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Fees	**—**	—
Other emoluments of directors and supervisors:		
Salaries, bonuses, allowances and welfare	**3,415**	3,295
Performance related bonuses*	**10,796**	4,976
Equity settled share expense	**290**	375
Retirement benefit scheme contributions	**147**	129
	14,648	8,775

* Certain executive directors of the Company are entitled to bonus payments which are determined base on work performance.

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2009 RMB'000	2008 RMB'000
Zhu Wuxiang	**58**	100
Chen Shaohua	**58**	100
Mi Zhengkun	**100**	100
Li Jin	**100**	100
Qiao Wenjun	**58**	100
Qu Xiaohui	**45**	—
Wei Wei	**45**	—
Chen Naiwei	**45**	—
	509	500

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors and supervisors

	Fees	Salaries, bonuses, allowances and welfare	Performance related bonuses	Share incentive scheme	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009						
Executive directors:						
Yin Yimin	–	438	5,562	–	30	6,030
Shi Lirong	–	433	1,200	–	27	1,660
He Shiyou	–	447	1,200	–	50	1,697
	–	1,318	7,962	–	107	9,387
Non-executive directors:						
Hou Weigui	–	327	1,142	–	–	1,469
Wang Zongyin	–	100	–	58	–	158
Xie Weiliang	–	100	–	58	–	158
Zhang Junchao	–	100	–	58	–	158
Li Juping	–	100	–	58	–	158
Dong Lianbo	–	100	–	58	–	158
	–	2,145	9,104	290	107	11,646
Supervisors:						
Zhang Taifeng	–	327	1,142	–	–	1,469
Wang Wangxi	–	289	360	–	20	669
He Xuemei	–	145	190	–	20	355
Qu Deqian	–	–	–	–	–	–
Wang Yan	–	–	–	–	–	–
	–	761	1,692	–	40	2,493
2008						
Executive directors:						
Yin Yimin	–	442	1,961	–	24	2,427
Shi Lirong	–	379	450	–	22	851
He Shiyou	–	401	720	–	37	1,158
	–	1,222	3,131	–	83	4,436
Non-executive directors:						
Hou Weigui	–	327	622	–	–	949
Wang Zongyin	–	100	–	75	–	175
Xie Weiliang	–	100	–	75	–	175
Zhang Junchao	–	100	–	75	–	175
Li Juping	–	100	–	75	–	175
Dong Lianbo	–	100	–	75	–	175
	–	2,049	3,753	375	83	6,260
Supervisors:						
Zhang Taifeng	–	327	622	–	–	949
Wang Wangxi	–	242	312	–	23	577
He Xuemei	–	177	289	–	23	489
Qu Deqian	–	–	–	–	–	–
Wang Yan	–	–	–	–	–	–
	–	746	1,223	–	46	2,015

There was no arrangement under which directors and supervisors waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2008: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2008: five) non-director and non-supervisor, highest paid employees for the year are as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**9,289**	8,457
Performance related bonuses	**6,700**	2,537
Retirement benefit scheme contributions	**—**	1,498
	15,989	12,492

The number of non-director, non-supervisor and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
RMB1,000,001 to RMB2,000,000	**—**	2
RMB2,000,001 to RMB3,000,000	**3**	2
RMB3,000,001 to RMB4,000,000	**1**	1
RMB4,000,001 to RMB5,000,000	**1**	—
	5	5

During the year, no director or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

	2009	2008
	RMB'000	RMB'000
Group:		
Current — Hong Kong	**4,689**	698
Current — Mainland China	**611,029**	317,723
Current — Overseas	**258,111**	131,683
Deferred (note 36)	**(244,748)**	(99,496)
Total tax charge for the year	**629,081**	350,608

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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10. INCOME TAX (continued)

As a hi-tech enterprise in Shenzhen, the Company has obtained the certificate as a national-grade hi-tech enterprise, with which the Company enjoys an enterprise income tax rate of 15% for the years from 2008 to 2010.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Zhongxing Software, a major subsidiary of the Company which is an Important Software Enterprise under the National Planning Layout, is subject to the currently applicable enterprise income tax rate of 10%.

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

Shenzhen Zhongxing Mobile Technology Company Limited ("Zhongxing Mobile") is subject to an enterprise income tax rate of 15% from 2008 to 2010 as a hi-tech enterprise.

Shenzhen Zhongxing ICT Company Limited was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian (2009) No. 383 issued by the State Tax Bureau of Nanshan District, Shenzhen. The current year is its first profitable year and enjoyed enterprise income tax exemption.

Shenzhen ZTE NetView Technology Company Limited was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian (2005) No. 0217 issued by the State Tax Bureau of Nanshan District, Shenzhen. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 20% is applicable.

Shenzhen Zhongxing Special Equipment Company Limited was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Jian Mian (2006) No. 0002 issued by the State Tax Bureau of Nanshan District, Shenzhen. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 20% is applicable.

ZTE Microelectronics Technology Company Limited, whose tax holiday expired on 31 December 2008, is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise for the years from 2008 to 2010.

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

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

Shanghai Zhongxing Software Company Limited has been entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Pu Shui Shi Wu Suo Jian (2007) No. 301 issued by the State Tax Bureau of Pudong New Area, Shanghai. The current year is its third profitable year and a 50% reduction in the enterprise income tax rate of 20% is applicable. The said company is also a national-grade hi-tech enterprise for the years from 2008 to 2010.

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10. INCOME TAX (continued)

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

ZTEsoft Technology Company Limited is a national-grade hi-tech enterprise from 2008 to 2010 and is subject to the currently applicable enterprise income tax rate of 10% as an Important Software Enterprise under the National Planning Layout.

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

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

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

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries 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:

	2009		2008	
	RMB'000	**%**	RMB'000	%
Profit before tax	**3,324,742**		2,262,543	
Tax at the statutory tax rate	**831,187**	**25.0**	565,636	25.0
Lower tax rate for specific provinces or enacted by local authority	**(392,776)**	**(11.8)**	(226,254)	(10.0)
Expenses not deductible for tax	**338,320**	**10.2**	195,330	8.7
Income not subject to tax	**(112,495)**	**(3.4)**	(33,219)	(1.5)
Tax holiday	**(68,832)**	**(2.1)**	(72,457)	(3.2)
Profits and losses attributable to associates	**(4,537)**	**(0.1)**	201	—
Tax losses utilised from previous years	**(15,449)**	**(0.5)**	(135,957)	(6.0)
Tax losses of subsidiaries not recognised	**53,663**	**1.6**	57,328	2.5
Tax charge at the Group's effective rate	**629,081**	**18.9**	350,608	15.5

The share of tax attributable to associates amounting to RMB2,256,000 (2008: RMB637,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of comprehensive income.

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11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of approximately RMB721,736,000 (2008: RMB975,994,000) which has been dealt with in the financial statements of the Company (note 39(b)).

12. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Proposed final — RMB0.3 (2008: RMB0.3) per ordinary share	**552,425**	402,999

Details of proposed final dividend for the year are set out in Note 50(d). The said profit distribution proposal is subject to the approval of the annual general meeting of the Company.

13. EARNINGS PER SHARE

Basic earnings per share amount is computed by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 1,752,691,606 (2008: 1,746,329,402) in issue during the year, as adjusted to reflect the capitalisation issue during the year.

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

Calculations of basic and diluted earnings per share are as follows:

	2009 RMB'000	2008 RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**2,458,121**	1,660,199

	Number of shares	
	2009 **'000**	2008 '000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation[#]	**1,752,692**	1,746,329*
Shares subject to lock-up under the Share Incentive Scheme	**69,738**	46,754*
Warrants attached to bonds[##]	**—**	—
Adjusted weighted average number of ordinary shares in issue	**1,822,430**	1,793,083*

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13. EARNINGS PER SHARE (continued)

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis, whereby the total share capital was increased from 1,746,329,402 shares to 1,831,336,215 shares. Among the total subject shares, 69,737,523 shares are subject to lock-up under the share incentive scheme (Note 40) and they are excluded from the calculation of basic earnings per shares.

The average market price of the ordinary shares during the year is less than the exercise price of the warrants, therefore, they are not considered in the calculation of diluted earnings per share for the years ended 31 December 2009 and 2008.

* The number of ordinary shares in issue during 2008 had been adjusted to take into account the bonus issue during the year ended 31 December 2009 (note 37).

14. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of associations, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to their respective statutory surplus reserves (the "SSR") until such reserves reach 50% of the registered capital of these companies. Part of the SSR may be capitalised as these companies' share capitals, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	1,865,349	148,833	4,165,233	281,730	817,086	7,278,231
Accumulated depreciation and impairment	(243,776)	(76,439)	(1,962,550)	(102,951)	—	(2,385,716)
Net carrying amount	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515
At 1 January 2009, net of accumulated depreciation and impairment	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515
Additions	122,670	9,409	806,094	50,631	1,037,273	2,026,077
Disposals	(18,361)	(24,883)	(40,108)	(5,633)	—	(88,985)
Depreciation provided during the year	(66,583)	(8,337)	(664,006)	(32,745)	—	(771,671)
Transfers	343,463	—	178,161	—	(521,624)	—
Exchange realignments	(151)	—	(782)	571	—	(362)
At 31 December 2009, net of accumulated depreciation and impairment	2,002,611	48,583	2,482,042	191,603	1,332,735	6,057,574
At 31 December 2009:						
Cost	2,312,938	99,148	4,948,012	315,717	1,332,735	9,008,550
Accumulated depreciation and impairment	(310,327)	(50,565)	(2,465,970)	(124,114)	—	(2,950,976)
Net carrying amount	2,002,611	48,583	2,482,042	191,603	1,332,735	6,057,574

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	1,131,907	107,368	3,522,322	262,118	931,090	5,954,805
Accumulated depreciation and impairment	(181,911)	(71,688)	(1,653,223)	(93,174)	—	(1,999,996)
Net carrying amount	949,996	35,680	1,869,099	168,944	931,090	3,954,809
At 1 January 2008, net of accumulated depreciation and impairment	949,996	35,680	1,869,099	168,944	931,090	3,954,809
Additions	3,139	50,365	663,073	52,957	915,593	1,685,127
Disposals	(1,795)	—	(68,652)	(14,276)	—	(84,723)
Depreciation provided during the year	(61,690)	(24,751)	(477,437)	(23,762)	—	(587,640)
Transfers	734,921	11,100	283,576	—	(1,029,597)	—
Exchange realignments	(2,998)	—	(66,976)	(5,084)	—	(75,058)
At 31 December 2008, net of accumulated depreciation and impairment	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515
At 31 December 2008:						
Cost	1,865,349	148,833	4,165,233	281,730	817,086	7,278,231
Accumulated depreciation and impairment	(243,776)	(76,439)	(1,962,550)	(102,951)	—	(2,385,716)
Net carrying amount	1,621,573	72,394	2,202,683	178,779	817,086	4,892,515

	Company					
	Buildings RMB'000	**Leasehold improvements RMB'000**	**Machinery, computers and office equipment RMB'000**	**Motor vehicles RMB'000**	**Construction in progress RMB'000**	**Total RMB'000**
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	**1,784,775**	**59,372**	**1,805,621**	**195,150**	**402,289**	**4,247,207**
Accumulated depreciation and impairment	**(224,004)**	**(42,227)**	**(943,273)**	**(73,242)**	**—**	**(1,282,746)**
Net carrying amount	**1,560,771**	**17,145**	**862,348**	**121,908**	**402,289**	**2,964,461**
At 1 January 2009, net of accumulated depreciation and impairment	**1,560,771**	**17,145**	**862,348**	**121,908**	**402,289**	**2,964,461**
Additions	**52,441**	**8,469**	**719,933**	**22,248**	**659,159**	**1,462,250**
Disposals	**(18,251)**	**—**	**(12,026)**	**(3,437)**	**—**	**(33,714)**
Transfers to subsidiaries	**—**	**—**	**(15,856)**	**(417)**	**—**	**(16,273)**
Depreciation provided during the year	**(55,843)**	**(8,337)**	**(308,048)**	**(18,260)**	**—**	**(390,488)**
Transfers	**270,958**	**—**	**—**	**—**	**(270,958)**	**—**
At 31 December 2009, net of accumulated depreciation and impairment	**1,810,076**	**17,277**	**1,246,351**	**122,042**	**790,490**	**3,986,236**
At 31 December 2009:						
Cost	**2,089,923**	**67,841**	**2,431,108**	**208,006**	**790,490**	**5,587,368**
Accumulated depreciation and impairment	**(279,847)**	**(50,564)**	**(1,184,757)**	**(85,964)**	**—**	**(1,601,132)**
Net carrying amount	**1,810,076**	**17,277**	**1,246,351**	**122,042**	**790,490**	**3,986,236**

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings	Leasehold improvements	Machinery, computers and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	1,052,762	48,273	1,614,369	181,469	817,787	3,714,660
Accumulated depreciation and impairment	(164,183)	(37,552)	(799,718)	(64,928)	—	(1,066,381)
Net carrying amount	888,579	10,721	814,651	116,541	817,787	2,648,279
At 1 January 2008, net of accumulated depreciation and impairment	888,579	10,721	814,651	116,541	817,787	2,648,279
Additions	—	—	451,967	31,293	327,602	810,862
Disposals	—	—	(16,566)	(6,271)	—	(22,837)
Transfers from subsidiaries	—	—	12,997	274	—	13,271
Transfers to subsidiaries	—	—	(172,344)	(2,187)	—	(174,531)
Depreciation provided during the year	(59,821)	(4,676)	(228,349)	(17,738)	—	(310,584)
Transfers	732,000	11,100	—	—	(743,100)	—
Exchange realignments	13	—	(8)	(4)	—	1
At 31 December 2008, net of accumulated depreciation and impairment	1,560,771	17,145	862,348	121,908	402,289	2,964,461
At 31 December 2008:						
Cost	1,784,775	59,372	1,805,621	195,150	402,289	4,247,207
Accumulated depreciation and impairment	(224,004)	(42,227)	(943,273)	(73,242)	—	(1,282,746)
Net carrying amount	1,560,771	17,145	862,348	121,908	402,289	2,964,461

As at 31 December 2009, no houses and buildings were pledged as security for the preservation of properties subject to legal proceedings (2008: RMB92,766,000). A subsidiary of the Group pledged real estate properties with a book value of RMB7,490,000 (2008: RMB10,269,000) and machinery equipment with a book value of RMB417,508,000 (2008: RMB465,856,000), as security for long-term loans.

As at 31 December 2009, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen and Shanghai, the PRC, with net carrying values of approximately RMB210,543,000 (2008: RMB114,595,000), RMB996,837,000 (2008: RMB764,269,000) and RMB234,826,000 (2008: RMB242,743,000), respectively.

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	**518,916**	59,900
Additions during the year	**34,345**	465,213
Disposals	**—**	(4,749)
Recognised during the year	**(38,510)**	(1,448)
Carrying amount at 31 December	**514,751**	518,916
Current portion	**(10,980)**	(10,527)
Non-current portion	**503,771**	508,389

All the leasehold land are held under medium term leases and are situated in Mainland China.

	Company	
	2009	2008
	RMB'000	RMB'000
Carrying amount at 1 January	**469,646**	48,106
Additions during the year	**—**	422,840
Recognised during the year	**(37,018)**	(1,300)
Carrying amount at 31 December	**432,628**	469,646
Current portion	**(9,296)**	(9,530)
Non-current portion	**423,332**	460,116

All the leasehold land are held under medium term leases and are situated in Mainland China.

As at 31 December 2009, the Group was in the process of obtaining the land use right certificates of three pieces of land located in Shenzhen, Sanya, Xi'an, the PRC, with an aggregate net carrying value of approximately RMB293,917,000 (2008: RMB259,572,000).

As at 31 December 2009, a subsidiary of the Group pledged its land use right with a net carrying value of RMB4,140,000 (2008: Nil) as security for bank loan.

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17. INTANGIBLE ASSETS

	Group				
	Technology know-how	Computer software	Operating concession	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2009					
Cost at 1 January 2009, net of accumulated amortisation and impairment	**3,578**	**74,994**	**38,382**	**476,020**	**592,974**
Additions	**—**	**24,565**	**—**	**402,773**	**427,338**
Retirements and disposals	**—**	**(51)**	**—**	**—**	**(51)**
Amortisation provided during the year	**(714)**	**(38,473)**	**(3,235)**	**(100,418)**	**(142,840)**
Exchange realignments	**—**	**—**	**(24)**	**—**	**(24)**
At 31 December 2009	**2,864**	**61,035**	**35,123**	**778,375**	**877,397**
At 31 December 2009:					
Cost	**5,033**	**344,340**	**94,505**	**1,102,304**	**1,546,182**
Accumulated amortisation and impairment	**(2,169)**	**(283,305)**	**(59,382)**	**(323,929)**	**(668,785)**
Net carrying amount	**2,864**	**61,035**	**35,123**	**778,375**	**877,397**
31 December 2008:					
Cost at 1 January 2008, net of accumulated amortisation and impairment	730	139,342	44,715	258,990	443,777
Additions	3,678	27,761	—	278,431	309,870
Retirements and disposals	—	(42,815)	—	—	(42,815)
Amortisation provided during the year	(830)	(49,294)	(3,460)	(61,401)	(114,985)
Exchange realignments	—	—	(2,873)	—	(2,873)
At 31 December 2008	3,578	74,994	38,382	476,020	592,974
At 31 December 2008:					
Cost	5,033	337,632	94,530	699,531	1,136,726
Accumulated amortisation and impairment	(1,455)	(262,638)	(56,148)	(223,511)	(543,752)
Net carrying amount	3,578	74,994	38,382	476,020	592,974

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17. INTANGIBLE ASSETS (continued)

	Company		
	Computer software	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation and impairment	**57,088**	**137,914**	**195,002**
Additions	**22,961**	**58,494**	**81,455**
Retirements and disposals	**(26)**	**—**	**(26)**
Amortisation provided during the year	**(31,478)**	**(44,845)**	**(76,323)**
At 31 December 2009	**48,545**	**151,563**	**200,108**
At 31 December 2009:			
Cost	**308,255**	**391,937**	**700,192**
Accumulated amortisation and impairment	**(259,710)**	**(240,374)**	**(500,084)**
Net carrying amount	**48,545**	**151,563**	**200,108**
31 December 2008:			
Cost at 1 January 2008, net of accumulated amortisation and impairment	78,131	127,623	205,754
Additions	20,133	49,186	69,319
Retirements and disposals	(344)	—	(344)
Amortisation provided during the year	(40,832)	(38,895)	(79,727)
At 31 December 2008	57,088	137,914	195,002
At 31 December 2008:			
Cost	303,096	333,443	636,539
Accumulated amortisation and impairment	(246,008)	(195,529)	(441,537)
Net carrying amount	57,088	137,914	195,002

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18. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted shares, at cost	**1,948,720**	1,768,698
Less: Impairment[#]	**(100,748)**	(113,065)
Loans to subsidiaries	**1,011,281**	654,018
	2,859,253	2,309,651

[#] An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB428,215,000 (before deducting the impairment loss) (2008: RMB470,888,000) because the respective subsidiaries are loss making. As one subsidiary was deregistered in 2009, the impairment for this subsidiary was written off accordingly.

The Company's balances of trade and bills receivables, other receivables, trade and bills payables and other payables with the subsidiaries are disclosed in notes 24, 26, 29 and 30 to the financial statements, respectively. The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited ("Kangxun")[#] [(i)] (深圳市中興康訊電子有限公司)	The PRC/ Mainland China	RMB50,000,000	90	—	Manufacture and sale of electronic components
ZTEsoft Technology Company Limited ("ZTE soft")[#(ii)] (南京中興軟創科技股份有限公司)	The PRC/ Mainland China	RMB200,000,000	76	—	Sale and development of business operation support system
Zhongxing Software Company Limited ("Zhongxing Software")[#] [(ii)] (深圳市中興軟件有限責任公司)	The PRC/ Mainland China	RMB50,000,000	73	25	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited[#] [(i)] [(iii)] (西安中興新軟件有限責任公司)	The PRC/ Mainland China	RMB600,000,000	100	—	Development of telecommunications software systems and provision of related consultancy services
Wuxi Zhongxing Optoelectronics Technologies Company Limited ("Wuxi Zhongxing")[#] [(i)] (無錫市中興光電子技術有限公司)	The PRC/ Mainland China	RMB10,000,000	65	—	Development of technology for optical electronic products and provision of related technical services

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Integration Telecom Co., Ltd.# (i) (iii) (深圳中興集訊通信有限公司)	The PRC/ Mainland China	RMB55,000,000	75	5	Development, manufacture and sale of information technology products
ZTE Mobile Tech Co., Limited ("ZTE Mobile")# (i) (iii) (深圳市中興移動通信有限公司)	The PRC/ Mainland China	RMB39,583,000	80	—	Development, manufacture and sale of telecommunications related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HKD500,000,000	100	—	Marketing and sale of telecommunications system equipment and provision of management services
Anhui Wantong Posts and Telecommunications Company Limited ("Anhui Wantong")# (i) (iii) (安徽皖通郵電股份有限公司)	The PRC/ Mainland China	RMB31,100,160	51	—	Development, manufacture and sale of computer software and integrated information systems
ZTE Telecom India Private Limited Company, Limited ("ZTE India")## (中興通訊印度私人有限公司)	India	INR1,246,374,597	100	—	Marketing and sale of telecommunications system equipment and provision of management services
ZTE Technology & Service Co., Limited ("ZTE Technology & Service")# (i) (iii) (深圳市中興通訊技術服務有限責任公司)	The PRC/ Mainland China	RMB50,000,000	90	10	Development, manufacture and sale of telecommunications related products
Shenzhen Changfei Investment Company Limited ("Changfei")# (i) (iii) (深圳市長飛投資有限公司)	The PRC/ Mainland China	RMB30,000,000	51	—	Investment holding
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited# (i) (iii) (上海中興通訊技術有限責任公司)	The PRC/ Mainland China	RMB10,000,000	51	—	Development, manufacture and sale of computer software and telecommunications system equipment

(i) These subsidiaries are registered as limited companies under PRC law.

(ii) These subsidiaries are registered as Sino-foreign joint ventures under PRC law.

(iii) The statutory financial statement of the subsidiaries are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The English names of these subsidiaries are directly translated from their Chinese names.

The Chinese name of this subsidiary is directly translated from its registered name.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Share of net assets	**2,255**	2,255	**—**	—
	2,255	2,255	**—**	—

The Group has no balances with its jointly-controlled entity.

Particulars of the jointly-controlled entity are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Bestel Communications Limited ("Bestel")	Republic of Cyprus	CYP600,000	50	50	50	Provision of telecommunications solutions and related consultancy services

The investment in Bestel is held by a wholly-owned subsidiary of the Company. There was no operating activity in 2009.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2009 RMB'000	2008 RMB'000
Share of the jointly-controlled entity's assets and liabilities		
Current assets	**2,303**	2,303
Current liabilities	**(48)**	(48)
Net assets	**2,255**	2,255

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Unlisted shares, at cost	**—**	—	**336,901**	94,936
Share of net assets	**438,027**	166,178	**—**	—
	438,027	166,178	**336,901**	94,936
Provision for impairment	**—**	—	**(9,774)**	(9,774)
	438,027	166,178	**327,127**	85,162

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 24 and 29 to the financial statements, respectively. The amounts due from/to associates are unsecured, interest-free and are repayable on demand.

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20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of ownership interest attributable to the Group	Principal activities
Nationz Technologies Inc.# * ## (國民技術股份有限公司)	The PRC/Mainland China	RMB81,600,000	26.67	Design, research, development and sale of integrated circuits and related electronic products
Shenzhen Weigao Semi-conductor Technology Co., Ltd.# * (深圳市微高半導體科技有限公司)	The PRC/Mainland China	RMB10,000,000	20.4**	Design, research, development and sale of semi-conductor products
Wuxi Kaier Technology Co., Ltd.# * (無錫凱爾科技有限公司)	The PRC/Mainland China	RMB11,332,729	20.07**	Development, manufacture and sale of camera lenses for mobile phones
Shenzhen Zhongxing Xinyu FPC Company Limited# * (深圳市中興新宇軟電路有限公司)	The PRC/Mainland China	RMB11,000,000	11.58**	Development, manufacture and sale of circuits; import and export of related products and technologies
Shenzhen Smart Electronics Ltd. ("Smart")# * (深圳思碼特電子有限公司)	The PRC/Mainland China	HKD30,000,000	15.3**	Development, manufacture and sale of telecommunications related components
ZTE Energy Co,. Ltd. ("ZTE Energy")# * (中興能源有限公司)	The PRC/Mainland China	RMB1,290,000,000	23.26	Research, development and sale of biological energy and new energy

The English names of these associates are directly translated from their Chinese names.

Due to share restruction of the company, the name of ZTE IC Design Co., Ltd. was changed to Nationz Technologies Inc. ("Nationz Technologies") during the year. The share of the company that ZTE holds changes from 29.4% to 26.67%.

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

** These associates are held through a non-wholly-owned subsidiary of the Company which has significant influence over the boards of directors of these associates.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The year end date of the financial statements of the above associates is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2009 RMB'000	2008 RMB'000
Assets	**2,389,982**	1,033,807
Liabilities	**673,662**	454,051
Revenues	**1,475,731**	1,243,691
Profit	**69,476**	77,802

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21. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**253,760**	251,148	**244,448**	243,198

The above investments consist of investments in equity securities which have been designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2009, the above unlisted equity investments with a carrying amount of RMB253,760,000 (2008: RMB251,148,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

22. INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,602,831**	2,015,417	**799,146**	649,196
Work in progress	**1,181,375**	818,438	**527,145**	280,402
Finished goods	**1,799,947**	2,035,603	**461,032**	560,610
Contract works in progress	**3,740,647**	4,108,578	**2,959,955**	3,720,809
	9,324,800	8,978,036	**4,747,278**	5,211,017

23. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**11,388,496**	7,894,010	**10,829,088**	8,038,449
Amount due to customers for contract works	**(2,519,706)**	(2,965,582)	**(2,153,082)**	(2,408,455)
	8,868,790	4,928,428	**8,676,006**	5,629,994
Contract costs incurred plus recognised profits less recognised losses to date	**44,563,814**	32,018,956	**39,292,188**	23,248,757
Less: Progress billings	**(35,695,024)**	(27,090,528)	**(30,616,182)**	(17,618,763)
	8,868,790	4,928,428	**8,676,006**	5,629,994

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**18,337,023**	13,865,230	**22,025,346**	16,630,122
Impairment	**(1,854,947)**	(1,702,254)	**(1,459,189)**	(1,370,103)
	16,482,076	12,162,976	**20,566,157**	15,260,019
Current portion	**(16,098,327)**	(11,550,968)	**(20,229,505)**	(14,700,000)
Long-term portion	**383,749**	612,008	**336,652**	560,019

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

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**13,957,684**	10,216,760	**12,805,496**	10,686,644
7 to 12 months	**2,096,148**	1,495,092	**3,103,233**	2,323,405
1 to 2 years	**413,242**	444,240	**2,995,713**	1,460,119
2 to 3 years	**15,002**	6,884	**968,709**	549,041
Over 3 years	**—**	—	**693,006**	240,810
	16,482,076	12,162,976	**20,566,157**	15,260,019
Current portion of trade and bills receivables	**(16,098,327)**	(11,550,968)	**(20,229,505)**	(14,700,000)
Long-term portion	**383,749**	612,008	**336,652**	560,019

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,702,254**	1,236,853	**1,370,103**	1,069,236
Impairment losses recognised (note 6)	**519,459**	478,818	**395,054**	315,829
Amount write off as uncollectible	**(303,412)**	(7,553)	**(242,851)**	(14,962)
Impairment losses reversed (note 6)	**(63,354)**	(5,864)	**(63,117)**	—
At 31 December	**1,854,947**	1,702,254	**1,459,189**	1,370,103

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24. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB582,272,000 (2008: RMB808,889,000) with a carrying amount before provision of RMB582,272,000 (2008: RMB879,925,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**4,583,346**	4,816,412	**3,938,943**	5,114,829
Less than one year past due	**10,823,345**	5,866,359	**11,541,159**	6,864,336
	15,406,691	10,682,771	**15,480,102**	11,979,165

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

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

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**8,515,630**	6,183,968
The controlling shareholder	**—**	943	**—**	—
Associates	**12,459**	19,414	**11,609**	19,354
Related companies	**—**	54	**889**	5,488
	12,459	20,411	**8,528,128**	6,208,810

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

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25. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As at 31 December 2009, the Group factored trade receivables of RMB5,838,850,000 (2008: RMB2,412,509,000) to various banks for cash. The financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position.

In prior year, the Company entered into a telecommunications system project (the "project") with an African telecommunications operator with a total contract amount of US$1,500,000,000. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. In 2009, two (2008: one) government strategic banks in the PRC have agreed to factor these promissory notes pursuant to the receivables purchase agreements (the "Agreements"), which stipulates the factoring conditions based on the future performance of the African telecommunications operator. During the financing period, the banks will charge interest to the Company and the telecommunications operator. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2009, under the above arrangements, accounts receivable due from the customer amounted to RMB6,082,427,000 (2008: RMB3,542,011,000) among which RMB4,865,942,000 (2008: RMB2,833,609,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB1,216,485,000 (2008: RMB708,402,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**355,422**	355,887	**173,408**	18,546
Deposits and other receivables	**2,172,179**	2,118,721	**1,644,695**	1,549,193
Due from subsidiaries	**—**	—	**2,653,269**	1,289,166
Due from related companies	**8,607**	—	**1,514**	1,937
Dividends receivable	**1,585**	2,034	**1,017,020**	23,848
	2,537,793	2,476,642	**5,489,906**	2,882,690

The amounts due from subsidiaries and related companies are unsecured, interest-free and are repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for whom there was no recent history of default.

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27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Forward currency contracts				
Liabilities	**—**	12,560	**—**	12,560

The derivative financial instruments for the Group and the Company at 31 December 2008 represented forward currency contracts, and the carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well known banks in Mainland China and Hong Kong with A- or above credit ratings.

The Group has entered into these contracts to manage its exchange rate exposure which did not meet the criteria for hedge accounting. Changes in the fair value amounting to RMB12,560,000 (2008: RMB128,328,000) were recognised in profit or loss during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Cash and bank balances	**15,068,099**	11,472,650	**10,705,234**	8,331,272
Time deposits	**37,068**	7,756	**—**	—
	15,105,167	11,480,406	**10,705,234**	8,331,272
Less: Pledged deposits — Current	**(420,986)**	(136,246)	**(288,647)**	(7,522)
Pledged deposits — Non-current	**(608,359)**	—	**(608,359)**	—
Cash and cash equivalents	**14,075,822**	11,344,160	**9,808,228**	8,323,750

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB6,104,435,000 (2008: RMB6,467,149,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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29. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**21,161,940**	15,682,255	**27,278,626**	19,435,358
7 to 12 months	**41,328**	76,570	**3,123**	20,361
1 to 2 years	**276,089**	22,529	**529**	545
2 to 3 years	**24,525**	8,062	**288**	620
Over 3 years	**27,783**	24,589	**25,140**	27,409
	21,531,665	15,814,005	**27,307,706**	19,484,293

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**17,585,804**	12,503,470
The controlling shareholder	**85,566**	129,468	**—**	—
Related companies	**54,601**	87,226	**152**	152
Associates	**75,796**	43,785	**—**	—
	215,963	260,479	**17,585,956**	12,503,622

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

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2009**	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance		**2,337,628**	1,392,862	**2,039,175**	1,640,192
Other payables		**2,096,079**	1,536,414	**1,328,913**	1,042,855
Factoring costs payables		**73,868**	120,000	**73,868**	120,000
Accruals		**2,674,698**	1,517,208	**1,248,545**	727,935
Provision for warranties	35	**102,259**	92,066	**43,600**	57,200
Due to the controlling shareholder		**308**	308	**308**	308
Due to subsidiaries		**—**	—	**4,007,768**	2,973,991
Due to related companies		**389**	2,611	**389**	549
		7,285,229	4,661,469	**8,742,566**	6,563,030

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder, subsidiaries and related companies are unsecured, interest-free and are repayable on demand.

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31. INTEREST-BEARING BANK BORROWINGS

	Group					
	2009			2008		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**1.2556-5.585**	**2010**	**2,969,640**	3.18-9.99	2009	863,893
Bank loans — unsecured	**Libor+0.5-1.5**	**2010**	**2,038,323**	Libor+0.4-1.6	2009	2,423,611
Bank loans — secured	**2.00-11.50**	**2010**	**1,150,223**	1.68-6.25	2009	1,282,078
Bank loans — secured	**Libor+2**	**2010**	**688,282**	Libor+1.5-2	2009	1,094,903
			6,846,468			5,664,485
Non-current						
Bank loans — secured	**Libor+1.5**	**2015**	**358,071**			—
Bank loans — secured	**2**	**2011-2012**	**234,810**	2	2010-2012	281,523
Bank loans — unsecured	**Libor+1-1.2**	**2011-2012**	**1,092,512**	Libor+0.5	2010	205,038
Bank loans — unsecured	**3.51-4.86**	**2011**	**711,000**	3.78-11.5	2010	805,986
			2,396,393			1,292,547
			9,242,861			6,957,032

	Company					
	2009			2008		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**1.2556-4.779**	**2010**	**2,908,416**	3.18-6.15	2009	678,422
Bank loans — unsecured	**Libor+0.5-1.2**	**2010**	**1,570,486**	—	—	—
Bank loans — secured	**3.875**	**2010**	**114,678**	1.68-6.25	2009	1,268,791
			4,593,580			1,947,213
Non-current						
Bank loans — unsecured	**3.51**	**2011**	**650,000**	3.78-4.32	2010	800,000
Bank loans — unsecured	**Libor+1-1.2**	**2011-2012**	**1,092,512**	Libor+0.5	2010	205,039
			1,742,512			1,005,039
			6,336,092			2,952,252

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**6,846,468**	5,664,485	**4,593,580**	1,947,213
In the second year	**1,188,974**	1,052,737	**1,127,974**	1,005,039
In the third to fifth years, inclusive	**849,348**	239,810	**614,538**	—
Over five years	**358,071**	—	**—**	—
	9,242,861	6,957,032	**6,336,092**	2,952,252

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31. INTEREST-BEARING BANK BORROWINGS (continued)

Notes:

(a) Except for bank loans of approximately RMB5,578,877,000 (2008: RMB5,270,333,000) which are denominated in United States Dollars, all the Group's and the Company's borrowings are in Renminbi and other currencies.

(b) Except for unsecured bank loans with a carrying amount of RMB3,680,640,000 (2008: RMB1,669,879,000) and secured bank loans with a carrying amount of RMB1,385,033,000 (2008: RMB1,563,601,000), all borrowings of the Group bear interest at floating interest rates.

The Group's and the Company's secured bank loans and banking facilities are secured by:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**1,029,345**	136,246	**897,006**	7,522
Trade receivables	**5,953,528**	3,281,300	**5,935,752**	3,189,280
	6,982,873	3,417,546	**6,832,758**	3,196,802

Certain of the Group's and Company's unsecured bank loans are guaranteed by:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other banks or government	**281,477**	694,810	**—**	400,000
A related party	**18,000**	—	**—**	—
	299,477	694,810	**—**	400,000

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

32. BONDS CUM WARRANTS

	RMB'000
Nominal value of bonds cum warrants issued in the year	4,000,000
Equity component	(580,210)
Direct transaction costs	(38,556)
At the issuance date	3,381,234
Interest expense	133,418
Interest paid	—
At 31 December 2008	3,514,652
Interest expense	150,029
Interest paid	(32,000)
At 31 December 2009	3,632,681

Notes to Financial Statements

32. BONDS CUM WARRANTS (continued)

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds and warrants are listed on the Shenzhen Stock Exchange. The bonds are guaranteed by China Development Bank, and have a maturity of five years from the date of issuance. Each bond entitles its subscriber to an unconditional issue of 1.63 warrants, and 65,200,000 warrants are issuable in aggregate. The detachable warrants are valid for 24 months from the date of listing, conferring rights to subscribe for one A share at an exercise price of RMB78.13 for every two warrants held. Since the dividend payment and the completion of the capitalisation issue during the year 2008 and year 2009, the exercise price of the warrants has been adjusted to RMB42.394 and the holders of the warrants are entitled to subscribe for 0.922 A share for every warrant held.

The bonds bear interest at a rate of 0.8% per annum payable in arrears on 30 January each year.

The fair value of the liability component was estimated at the issue date using a market interest rate for an equivalent bond without the detachable warrants. The residual amount is allocated to the detachable warrants that is assigned as the equity component and is included in shareholders' equity.

The carrying amount of the liability component approximates to its fair value. The fair value of the liability component is estimated using an equivalent market interest rate for a similar bond.

33. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted at 31 December 2009 in accordance with HKAS 19 *Employee Benefit* by qualified actuaries of Towers Watson. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

The benefit obligations recognised in the statement of financial position are as follows:

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Present value of the obligations	**91,214**	57,034
Unrecognised actuarial losses	**(53,186)**	(20,971)
Net liability in the statement of financial position	**38,028**	36,063

Movements in the net liability recognised in the statement of financial position during the year are as follows:

	2009	2008
	RMB'000	RMB'000
Net liability at beginning of year	**36,063**	34,408
Benefit expenses recognised in profit or loss	**2,788**	2,356
Pension payments made	**(823)**	(701)
Net liability at end of year	**38,028**	36,063

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33. PROVISION FOR RETIREMENT BENEFITS (continued)

The principal assumptions used in determining the pension benefit obligations are shown below:

		2009 RMB'000	2008 RMB'000
(a)	Discount rate	**4.00%**	3.50%

(b) The expected rates of increase in salaries ranged from 1% to 9.6% per annum, which was based on the number of years of employment.

The benefit expenses recognised in profit or loss for the year are as follows:

	2009 RMB'000	2008 RMB'000
Interest cost on benefit obligations	**1,982**	1,996
Net actuarial losses recognised in the year	**806**	360
Benefit expense included in staff costs (note 6)	**2,788**	2,356

34. OTHER LONG-TERM PAYABLES

	Group and Company	
	2009 RMB'000	2008 RMB'000
Factoring costs payable	**255,052**	—
Government grants (a)	**—**	80,000
	255,052	80,000

(a) As the project concerned has been completed for some years and the amount is an subsidy in investment nature, the Company has transferred it to capital reserve during the year ended 31 December 2009.

35. PROVISION FOR WARRANTIES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
At beginning of year	**92,066**	59,068	**57,200**	35,300
Additional provisions	**72,896**	135,045	**29,995**	117,773
Amounts utilised during the year	**(62,703)**	(102,047)	**(43,595)**	(95,873)
At end of year	**102,259**	92,066	**43,600**	57,200

In respect of handsets, the Group and the Company generally provide a one-year warranty to their customers under which faulty products will be repaired or replaced. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and returns.

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36. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Deferred tax assets:				
At beginning of year	**395,246**	295,750	**223,940**	256,408
Deferred tax credited/ (charged) to profit or loss during the year (note 10)	**244,748**	99,496	**157,454**	(32,468)
At end of year	**639,994**	395,246	**381,394**	223,940

	Group		Company	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Deferred tax assets:				
Provision against inventories	**88,284**	72,835	**32,421**	44,486
Foreseeable contract losses	**92,439**	—	**92,439**	—
Provision for warranties	**29,428**	25,557	**13,245**	15,109
Provision for retirement benefits	**5,704**	5,161	**5,704**	5,161
Tax losses	**42,450**	84,957	**—**	—
Overseas tax	**250,533**	169,407	**238,728**	166,426
Unrealised profits arising on consolidation	**135,080**	42,348	**—**	—
	643,918	400,265	**382,537**	231,182
Deferred tax liabilities:				
Intangible assets	**(3,924)**	(5,019)	**(1,143)**	(7,242)

Deferred tax assets have not been recognised in respect of the following items:

	2009 RMB'000	2008 RMB'000
Tax losses	**423,141**	362,606

The tax losses that have not been recognized as deferred tax assets will expire as follows:

	2009 RMB'000	2008 RMB'000
2009	**—**	12,680
2010	**21,348**	21,348
2011	**6,044**	6,044
2012	**14,104**	—
After 2012	**381,645**	322,534
	423,141	362,606

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36. DEFERRED TAX (continued)

At 31 December 2009, tax losses of approximately RMB423,141,000 (2008: RMB362,606,000) have not been recognised as deferred tax assets since the possibilities of utilising such amount is considered remote.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its Implementation Regulations, effective from 1 January 2008, a 10% (or 5% for companies incorporated in Hong Kong) withholding income tax is payable by a foreign investor in respect of dividend income derived from profit generated by its PRC subsidiary after 1 January 2008. Accordingly, ZTE (H.K.) Limited, a subsidiary of the Group deemed a foreign investor, may recognise a deferred income tax liability in respect of net profit generated by its Mainland subsidiaries after 1 January 2008 and attributable to the foreign investor, regardless of whether such Mainland subsidiaries had declared any distribution of such profit as at the end of the reporting period.

As at 31 December 2009, the Group had not recognised any deferred income tax liability in respect of tax obligations arising from the future distribution of undistributed profit of such subsidiaries, as the Group was exercising control over the dividend policy of such subsidiaries and was in the opinion that distribution in the foreseeable future of profit generated during the relevant period was not probable. As at 31 December 2009, the total amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB822,525,000 (2008: RMB232,278,000).

37. ISSUED CAPITAL

	2009	2008
	RMB'000	RMB'000
Registered shares		
Domestic natural person shares	**66,899**	—
Senior management shares	**5,559**	1,693
	72,458	1,693
Unrestricted shares		
RMB Ordinary Shares	**1,467,403**	1,117,426
Overseas listed foreign shares	**291,475**	224,211
	1,758,878	1,341,637
	1,831,336	1,343,330

Pursuant to the resolution of the annual general meeting on 19 May 2009, the registered capital of the Company was increased by capitalising the capital reserve fund of the Company. Bonus shares of 402,999,092 were allotted and issued to the Company's shareholders on the basis of 3 bonus shares for every 10 shares held by the shareholders on 31 December 2008. The register capital of the Company increased from RMB1,343,330,310 to RMB1,746,329,402.

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company (note 38). After the deduction of Subject Share quota of 43,425 shares which had lapsed, the total number issued share capital of the Company has increased by 85,006,813 shares. As at 31 December 2009, the total number of the Company's issued share capital on an accumulative basis was 1,831,336,215 shares.

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38. SHARE INCENTIVE SCHEME

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staffs of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted.

The Share Incentive Scheme shall be valid for five years, comprising a lock-up period of two years and an unlocking period of three years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

(2) The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

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38. SHARE INCENTIVE SCHEME (continued)

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

The fair value of the Subject Shares was arrived at based on the market price of the Company's shares on the date of grant using the BlackScholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit or loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB299,594,000 (2008: RMB299,551,000) at Share Incentive Scheme expenses for the year and an aggregate amount of RMB899,293,000 (2008: RMB599,699,000) has been recognised in expenses as at the end of the year on an accumulative basis.

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the Subject Share quotas of the Phase I Share Incentive Scheme was adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain Scheme Participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have lapsed.

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38. SHARE INCENTIVE SCHEME (continued)

In accordance with the Share Incentive Scheme, Subject Shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. The unlocking of 15,269,290 shares, being 20% of the Subject Shares under the First Unlocking, was completed on 22 July 2009. After the deduction of 709,582 Subject Shares granted to 19 incumbent directors and senior management staff members of the Company and 1 former senior management staff member who had resigned effective 19 March 2009, which shall remain under lock-up and subject to sale restriction under the relevant regulations of the Company Law and the Guidelines for the Administration of Company Shareholdings by Directors, Supervisors and Senior Management Officers of Companies Listed on the Shenzhen Stock Exchange and Changes in Shareholdings, a total of 14,559,708 Subject Shares under the current unlocking were listed on 23 July 2009.

39. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 6 and 7 of the financial statements.

The capital reserve of the Group includes the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate a certain percentage of the statutory profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issue by way of paid-up capital. The fund cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Share Incentive Scheme reserve was created for the Share Incentive Scheme launched by the Company that provides incentives and rewards to certain employees of the Company and its subsidiaries.

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39. RESERVES (continued)

(b) Company

	Notes	Issued capital	Capital reserve	Equity component of bonds cum warrants	Share incentive scheme reserve	Shares subject to lock-up under the share incentive scheme	Statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividends	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007 and 1 January 2008		959,522	5,467,821	—	300,148	—	769,603	(3,651)	1,423,418	239,880	9,156,741
Final 2007 dividend declared		—	—	—	—	—	—	—	—	(239,880)	(239,880)
Effect of changes of other equity holders' interests in invested entities by the equity method		—	(74)	—	—	—	—	—	—	—	(74)
Total comprehensive income for the year	11	—	—	—	—	—	—	(7,842)	975,994	—	968,152
Proposed final 2008 dividend	12	—	—	—	—	—	—	—	(402,999)	402,999	—
Share Incentive Scheme:	38										
— Equity settled share expense		—	—	—	299,551	—	—	—	—	—	299,551
Transfer from capital reserve		383,808	(383,808)	—	—	—	—	—	—	—	—
Issue of bonds cum warrants		—	—	580,210	—	—	—	—	—	—	580,210
At 31 December 2008 and 1 January 2009		1,343,330	5,083,939	580,210	599,699	—	769,603	(11,493)	1,996,413	402,999	10,764,700
Final 2008 dividend declared		—	—	—	—	—	—	—	—	(402,999)	(402,999)
Total comprehensive income for the year	11	—	—	—	—	—	—	(3,320)	721,736	—	718,416
Proposed final 2009 dividend	12	—	—	—	—	—	—	—	(552,425)	552,425	—
Share Incentive Scheme:	38										
— Equity settled share expense		—	—	—	299,594	—	—	—	—	—	299,594
— Proceeds from shares issued	37	85,007	692,466	—	(218,429)	(447,235)	—	—	—	—	111,809
Transfer from capital reserve	37	402,999	(402,999)	—	—	—	—	—	—	—	—
Subsidy in investment nature	34	—	80,000	—	—	—	—	—	—	—	80,000
Others		—	21,627	—	—	—	—	—	—	—	21,627
Transfer from retained profits		—	—	—	—	—	73,383	—	(73,383)	—	—
At 31 December 2009		1,831,336	5,475,033	580,210	680,864	(447,235)	842,986	(14,813)	2,092,341	552,425	11,593,147

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40. SHARES SUBJECT TO LOCK-UP UNDER THE SHARE INCENTIVE SCHEME

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company (note 38) were registered as share capital on a one-off basis, whereby the total number of shares was increased from 1,746,329,402 shares to 1,831,336,215 shares. Unlocking conditions in respect of 15,269,290 shares, being 20% of the Subject Shares under the First Unlocking, had been fulfilled and 14,559,708 shares were listed on 23 July 2009. After the deduction of 15,269,290 Subject Shares under the First Unlocking, there were 69,737,523 registered Subject Shares for which unlocking conditions had not been fulfilled as at 31 December 2009. In accordance with the Share Incentive Scheme and relevant legal undertakings executed by the Company and the Scheme Participants, such shares are being held under the name of the Scheme Participants, who are not entitled to any cash dividend distribution and voting rights until the unlocking conditions have been fulfilled in respect of such shares. Therefore, subscription amounts of RMB447,235,000 for such restricted shares remaining in lock-up were charged to shareholders' equity as "Shares subject to lock-up under the Share Incentive Scheme" in the statement of financial position. For details of the Share Incentive Scheme, please refer to note 38.

41. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2009 **RMB'000**	2008 RMB'000
Guarantees given to banks in connection with borrowing to customers	**66,796**	77,177
Guarantees given to banks in respect of performance bonds	**7,721,644**	8,245,934
	7,788,440	8,323,111

(b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of Rs. 762,982,000 (approximately RMB61,874,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of Rs. 328,040,000 (approximately RMB26,602,000) is to be paid by the Company. The Company has set aside a provision for such amount at the end of the reporting period. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company, the directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group.

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41. CONTINGENT LIABILITIES (continued)

(c) In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed against the said judgement and the second trial is currently in progress. In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The said cases are currently in trial. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgements and current progress of the case, the directors are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group and no provision was made in respect of such claims in the financial statements.

42. FINANCIAL GUARANTEE CONTRACT

The Group has provided a financial guarantee which will expire in September 2018 for an independent customer with a maximum amount of RMB50,000,000 including corresponding interest.

In accordance with HKAS 39, such financial guarantee contract is accounted for as a financial liability and subsequently measured at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

43. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 31 to the financial statements.

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44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2010 as disclosed in note 6 to the financial statements. During the year, approximately RMB43,587,000 (2008: RMB27,569,000) of operating lease rental income has been recognised under this arrangement.

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 12 years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**196,676**	264,396
In the second to fifth years, inclusive	**197,467**	182,398
After five years	**31,511**	989
	425,654	447,783

45. COMMITMENTS

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:		
Land and buildings	**1,240,388**	301,419
Investments in associates	**18,850**	265,702
	1,259,238	567,121
Authorised, but not contracted for:		
Land and buildings	**5,833,950**	5,875,869

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46. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

	Notes	2009 RMB'000	2008 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**475,661**	522,828
Sale of finished goods	(b)	**3,295**	132
Rental expense	(c)	**29,961**	28,535
Associates:			
Purchase of raw materials	(a)	**362,466***	179,899
Sale of finished goods	(b)	**33,243***	83,328
Entities controlled by key management personnel of the Group:			
Purchase of raw materials	(a)	**—**	221,104
Sale of finished goods	(b)	**37,849**	23,377
Rental expense	(d)	**40,226**	34,001
Corporation guarantee	(e)	**18,000**	—
Entities controlled by the controlling shareholder:			
Purchase of raw materials	(a)	**226,445**	260,505
Sale of finished goods	(b)	**8**	116

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at a rate ranging from RMB40 to RMB42.5 per square metre.

(d) The rental expense was charged at a rate of ranging from RMB30 to RMB115 per square metre.

(e) The guarantee in respect of bank borrowing was provided by a related party at nil consideration, and it will be terminated in 2010.

* In April 2009, after disposal of part of the equity interest, Shenzhen Hongde Battery Company Limited ("Hongde"), the Company's subsidiary before disposal, became the Company's associate. In December 2009, after acquisition of the equity interest, Nanchang Xingfei Technology Company Limited ("Nanchang Xingfei"), an associate of the Company before acquisition, became the Company's indirect subsidiary. In the opinion of the management, no further disclosure is needed as these disposal and acquisition of equity interest have no material impact on the Group. The above transactions with both related parties only included the transactions between Hongde, Nanchang Xingfei and the Group occurring in the periods in which Hongde and Nanchang Xingfei were the associates of the Company.

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46. RELATED PARTY TRANSACTIONS (continued)

(II) Outstanding balances with related parties:

(i) Details of the Group's trade balances with the controlling shareholder, associates and other related parties as at end of the reporting period are disclosed in notes 24 and 29 to the financial statements.

(ii) Details of the Group's balances of receivables and payables which are not trading in nature with the controlling shareholder, associates and other related parties as at end of the reporting period are disclosed in notes 26 and 30 to the financial statements.

(III) Compensation of key management personnel of the Group

	2009 RMB'000	2008 RMB'000
Short-term employee benefits	**16,816**	9,821
Post-employment benefits	**278**	200
Equity settled share expenses	**2,622**	3,363
Total compensation paid to key management personnel	**19,716**	13,384

Included in the transactions with the Group's controlling shareholder and the entities controlled by the controlling shareholder, certain transactions amounting to approximately RMB735 million (2008: RMB812 million) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009	**Group**		
Financial assets	**Loans and receivables RMB'000**	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	**—**	**253,760**	**253,760**
Trade and bills receivables/Long-term trade receivables	**16,482,076**	**—**	**16,482,076**
Factored trade receivables/Factored long-term trade receivables	**5,838,850**	**—**	**5,838,850**
Financial assets included in prepayments, deposits and other receivables	**2,180,786**	**—**	**2,180,786**
Pledged deposits	**1,029,345**	**—**	**1,029,345**
Cash and cash equivalents	**14,075,822**	**—**	**14,075,822**
	39,606,879	**253,760**	**39,860,639**

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47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	21,531,665	—	21,531,665
Bank advances on factored trade receivables/Bank advances on factored long-term trade receivables	5,838,850	—	5,838,850
Financial liabilities included in other payables and accruals	2,170,644	—	2,170,644
Interest-bearing bank borrowings	9,242,861	—	9,242,861
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	3,632,681	—	3,632,681
Financial liabilities included in other long-term payables	255,052	—	255,052
	42,671,753	3,689	42,675,442

2008	Group		
Financial assets	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	251,148	251,148
Trade and bills receivables/Long-term trade receivables	12,162,976	—	12,162,976
Factored trade receivables/Factored long-term trade receivables	2,412,509	—	2,412,509
Financial assets included in prepayments, deposits and other receivables	2,120,756	—	2,120,756
Pledged deposits	136,246	—	136,246
Cash and cash equivalents	11,344,160	—	11,344,160
	28,176,647	251,148	28,427,795

Financial liabilities	Financial liabilities at fair value through profit or loss that are classified as held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	—	15,814,005	—	15,814,005
Bank advances on factored trade receivables/Bank advances on factored long-term trade receivables	—	2,412,509	—	2,412,509
Financial liabilities included in other payables and accruals	—	3,052,195	—	3,052,195
Derivative financial instruments	12,560	—	—	12,560
Interest-bearing bank borrowings	—	6,957,032	—	6,957,032
Financial guarantee contract	—	—	3,689	3,689
Bonds cum warrants	—	3,514,652	—	3,514,652
	12,560	31,750,393	3,689	31,766,642

Notes to Financial Statements

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47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2009	Company		
Financial assets	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	244,448	244,448
Trade and bills receivables/Long-term trade receivables	20,566,157	—	20,566,157
Factored trade receivables/Factored long-term trade receivables	5,821,074	—	5,821,074
Financial assets included in prepayments, deposits and other receivables	4,299,478	—	4,299,478
Pledged deposits	897,006	—	897,006
Cash and cash equivalents	9,808,228	—	9,808,228
	41,391,943	244,448	41,636,391

Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	27,307,706	—	27,307,706
Bank advances on factored trade receivables/ Bank advances on factored long-term trade receivables	5,821,074	—	5,821,074
Financial liabilities included in other payables and accruals	5,411,246	—	5,411,246
Interest-bearing bank borrowings	6,336,092	—	6,336,092
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	3,632,681	—	3,632,681
Financial liabilities included in other long-term payables	255,052	—	255,052
	48,763,851	3,689	48,767,540

2008	Company		
Financial assets	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	243,198	243,198
Trade and bills receivables/Long-term trade receivables	15,260,019	—	15,260,019
Factored trade receivables/Factored long-term trade receivables	2,537,509	—	2,537,509
Financial assets included in prepayments, deposits and other receivables	2,864,146	—	2,864,146
Pledged deposits	7,522	—	7,522
Cash and cash equivalents	8,323,750	—	8,323,750
	28,992,946	243,198	29,236,144

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47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	Financial liabilities at fair value through profit or loss that are classified as held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	—	19,484,293	—	19,484,293
Bank advances on factored trade receivables/Bank advances on factored long-term trade receivables	—	2,537,509	—	2,537,509
Financial liabilities included in other payables and accruals	—	5,777,895	—	5,777,895
Derivative financial instruments	12,560	—	—	12,560
Interest-bearing bank borrowings	—	2,952,252	—	2,952,252
Financial guarantee contract	—	—	3,689	3,689
Bonds cum warrants	—	3,514,652	—	3,514,652
	12,560	34,266,601	3,689	34,282,850

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

At 31 December 2009, the bank loans of the Group and the Company included fixed and variable rate debts. The Group and the Company have no significant concentration of interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2009, approximately 55% (2008: 46%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rates are in United State dollars ("USD"). If there would be a general increase/decrease in the interest rate of the bank borrowings with floating interest rates by 25 basis points, with all other variable held constant, the profit before tax for the Group would have been decreased/increased by approximately RMB9.9 million and RMB3.7 million for the years ended 31 December 2009 and 2008, respectively, and other components of equity would not change.

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48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in USD, EUR and certain portion of the bank loans is denominated in USD. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and other components of equity would not change.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	RMB'000
2009		
If RMB weakens against USD	**+3%**	**(60,243)**
If RMB strengthens against USD	**–3%**	**60,243**
If RMB weakens against EUR	**+5%**	**106,988**
If RMB strengthens against EUR	**–5%**	**(106,988)**
2008		
If RMB weakens against USD	+3%	26,855
If RMB strengthens against USD	–3%	(26,855)
If RMB weakens against EUR	+5%	61,722
If RMB strengthens against EUR	–5%	(61,722)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analyses, by counterparties, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

Notes to Financial Statements

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48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purpose. Except for the non-current portion of interest-bearing bank borrowings, all borrowings of the Group mature in less than one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2009	**Group**					
	On demand RMB'000	**Within 1 year RMB'000**	**1–2 years RMB'000**	**2–3 years RMB'000**	**Over 3 years RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**—**	**7,142,977**	**1,250,739**	**875,666**	**366,967**	**9,636,349**
Trade and bills payables	**13,046,804**	**8,484,861**	**—**	**—**	**—**	**21,531,665**
Bank advances on factored trade receivables/Bank advances on factored long-term trade receivables	**—**	**3,070,494**	**1,412,716**	**440,090**	**1,704,547**	**6,627,847**
Other payables	**2,096,776**	**73,868**	**—**	**—**	**—**	**2,170,644**
Bonds cum warrants	**—**	**32,000**	**32,000**	**32,000**	**4,032,000**	**4,128,000**
Other long-term payables	**—**	**—**	**69,981**	**48,127**	**228,532**	**346,640**
Financial guarantee contract	**70,485**	**—**	**—**	**—**	**—**	**70,485**
	15,214,065	**18,804,200**	**2,765,436**	**1,395,883**	**6,332,046**	**44,511,630**

2008	Group					
	On demand RMB'000	Within 1 year RMB'000	1–2 years RMB'000	2–3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	6,019,226	1,065,879	10,630	287,154	7,382,889
Trade and bills payables	9,495,946	6,318,059	—	—	—	15,814,005
Bank advances on factored trade receivables/Bank advances on factored long-term trade receivables	—	1,774,741	74,336	165,110	934,319	2,948,506
Other payables	3,052,195	—	—	—	—	3,052,195
Derivative financial instruments	—	12,560	—	—	—	12,560
Bonds cum warrants	—	32,000	32,000	32,000	4,064,000	4,160,000
Financial guarantee contract	80,866	—	—	—	—	80,866
	12,629,007	14,156,586	1,172,215	207,740	5,285,473	33,451,021

Notes to Financial Statements

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48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the ends of the reporting periods were as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Interest-bearing bank borrowings	**9,242,861**	6,957,032
Total equity	**17,948,866**	15,183,547
Total equity and interest-bearing bank borrowings	**27,191,727**	22,140,579
Gearing ratio	**34%**	31%

49. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB433,937,000 is by assuming directly related liabilities.

50. EVENTS AFTER THE REPORTING PERIOD

(a) On 21 January 2010, an aggregate of 58,294,800 new H shares were allotted and issued by the Company at the placing price of HK$45.0 per share to no less than six placees, who and whose ultimate beneficial owners are independent third parties. The net proceeds raised from the placing amounted to approximately HK$2,596 million. Following the completion of the placing, the total number of issued shares of the Company has increased from 1,831,336,215 to 1,889,631,015, while the total number of H shares held by the public has increased from 291,474,892 to 349,769,692.

(b) The exercise period of warrants attached to bonds of the Company has expired. As at the close of trading on 12 February 2010, a total of 23,348,590 warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 warrants had not been exercised and had lapsed. Following the exercise of the warrants, the Company's total number of issued share capital has increased from 1,889,631,015 prior to the exercise to 1,911,154,456 after the exercise.

(c) The application for initial public offering by Nationz Technologies, an associate of the Company, was approved by the GEM Board Issue Approval Committee under the China Securities Regulatory Commission ("CSRC") at the 13th working meeting of 2010 of the Committee on 26 March 2010. As at 31 December 2009, the Company owned 21.76 million shares of Nationz Technologies, representing 26.67% equity interest of Nationz Technologies before the offering.

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50. EVENTS AFTER THE REPORTING PERIOD (continued)

(d) Pursuant to the profit distribution proposal recommended by the Board, the Company will pay a cash dividend of RMB3 (before tax) for every 10 shares held on the basis of the total share capital of the Company as at 8 April 2010 less the number of restricted shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled in accordance with the implementation of the Share Incentive Scheme as at the A share record date for the purpose of the 2009 profit distribution (the "Record Date"), and will also issue 5 bonus shares for every 10 shares held to shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. In accordance with relevant provisions of the Share Incentive Scheme, application will be made in 2010 for the second unlocking of 35% of the Subject Shares granted, and restricted shares remaining in lock-up shall not be entitled to the cash dividend. As at 8 April 2010, 69,737,523 restricted shares remained in lock-up. The number of shares entitled to the cash dividend under the 2009 profit distribution proposal will be 1,841,416,933 shares in case the second unlocking is not completed by the Record Date, or a maximum of 1,868,214,185 shares in case the second unlocking is completed by the Record Date. The said profit distribution proposal is subject to approval by the annual general meeting of the Company.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2010.

Documents Available for Inspection

1. Text of the 2009 annual report signed by the Chairman of the Board of Directors;

2. Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2009 prepared in accordance with the PRC ASBEs and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

3. Original copy of the auditors' report affixed with seal of the certified public accountants and duly signed under the hand and seal of the registered accountants;

4. Original copies of all of the Company's released documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News during the year;

5. Articles of Association.

By order of the Board

Hou Weigui
Chairman

9 April 2010