



ZTE CORPORATION
中興通訊股份有限公司

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

(Stock Code: 763)

2007 ANNUAL REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1 IMPORTANT

- 1.1** The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that this annual report summary and results announcement do not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents. This annual report summary is extracted from the full text of the annual report, which is simultaneously published in the website of Shenzhen Stock Exchange (<http://www.szse.com.cn>), the Company’s designated information disclosure website (<http://www.cninfo.com.cn>) and the ZTE website (<http://www.zte.com.cn>). For more details, investors should refer to the full text of the 2007 annual report.
- 1.2** There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this annual report.
- 1.3** The 2007 annual report has been considered and approved at the thirteenth meeting of the fourth 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. Wang Zongyin, Vice Chairman, to vote on his behalf.
- 1.4** The financial reports of ZTE and its subsidiaries (the “Group”) for the year ended 31 December 2007 were prepared in accordance with generally accepted accounting principles in the People’s Republic of China (“PRC GAAP”) and Hong Kong Financial Reporting Standards (“HKFRSs”), and had been audited by Ernst & Young Hua Ming and Ernst & Young respectively, and an unqualified auditors’ report has been issued by each of them.
- 1.5** Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial reports contained in the 2007 annual report.

2 CORPORATE PROFILE

2.1 Corporate information

Abbreviated Name of Stock	ZTE	
Stock code	000063	763
Bond code	中興債1(115003)	
Warrant code	中興ZXC1(031006)	
Place of listing	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong	
Postal code	518057	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

2.2 Contact Persons and Correspondence

	Authorised representatives	Secretary to the Board of Directors	Joint company secretaries	Securities affairs representative
Name	Yin Yimin, Feng Jianxiong	Feng Jianxiong	Feng Jianxiong, Ngai Wai Fung	Li Liuhong
Address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China			
Tel	+86 755 26770282			
Fax	+86 755 26770286			
E-mail	fengjianxiong@zte.com.cn			

3 ACCOUNTING AND BUSINESS DATA HIGHLIGHTS

3.1 Major financial data of the group prepared in accordance with PRC GAAP

Unit: RMB in millions

	For the year ended 31 December 2007 (current year)	For the year ended 31 December 2006 (previous year) Before adjustment After adjustment		Year-on-year change after adjustment	For the year ended 31 December 2005 Before adjustment After adjustment	
Sales revenue	34,777.2	23,214.6	23,214.6	49.81%	21,740.7	21,740.7
Gross profit	1,727.7	1,069.6	1,030.7	67.62%	1,501.9	1,605.8
Net profit attributable to shareholders of the listed company	1,252.2	807.4	767.0	63.26%	1,194.3	1,287.7
Net profit after extraordinary items attributable to shareholders of the listed company	1,245.9	753.9	713.4	74.64%	1,212.9	1,306.3
Net cash flow from operating activities	88.4	(1,555.0)	(1,548.10)	105.71%	177.3	177.3
	As at 31 December 2007 (end of current year)	As at 31 December 2006 (end of previous year) Before adjustment After adjustment		Year-on-year change after adjustment	As at 31 December 2005 Before adjustment After adjustment	
Total assets	39,173.1	25,916.9	25,760.7	52.07%	21,779.1	21,660.7
Shareholders' equity attributable to shareholders of the listed company	12,137.2	10,678.9	10,763.9	12.76%	10,125.1	10,250.5

3.2 Principal financial indicators prepared in accordance with PRC GAAP

	For the year ended 31 December 2007 (current year)	For the year ended 31 December 2006 (end of previous year)		Year-on-year change after adjustment	For the year ended 31 December 2005	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Basic earnings per share (RMB)	1.30	0.84	0.80	62.50%	1.24	1.34
Diluted earnings per share (RMB) ^{Note}	1.29	0.84	0.80	61.25%	1.24	1.34
Basic earnings per share after extraordinary items (RMB)	1.30	0.79	0.74	75.68%	1.26	1.36
Fully diluted return on net assets (%)	10.32	7.56	7.13	Increase by 3.19 percentage points	11.80	12.56
Weighted average return on net assets (%)	10.94	7.76	7.30	Increase by 3.64 percentage points	12.40	13.23
Fully diluted return on net assets after extraordinary items (%)	10.26	7.06	6.63	Increase by 3.63 percentage points	11.98	12.74
Weighted average return on net assets after extraordinary items (%)	10.88	7.24	6.79	Increase by 4.09 percentage points	12.59	13.42
Net cash flow from operating activities per share (RMB)	0.09	(1.62)	(1.61)	105.59%	0.18	0.18
	As at 31 December 2007 (end of current year)	As at 31 December 2006 (end of previous year)		Year-on-year change after adjustment	As at 31 December 2005	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Net asset per share attributable to shareholders of the listed company (RMB)	12.65	11.12	11.22	12.75%	10.55	10.68

Note: In accordance with PRC enterprise accounting standards, diluted earnings per share is calculated on the basis of net interests attributable to the listed company (representing the effective total share capital of the Company (which remained unchanged at 959,521,650 shares during the period from 1 January 2007 to the date up to which this report was made) plus 20% of the 47.98 million potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company).

Extraordinary profit or loss items

√ Applicable □ N/A

Unit: RMB in millions

Extraordinary items	Amount
Non-operating income	186.6
Less: non-operating expenses	179.2
Effect of extraordinary items on income tax	<u>1.1</u>
Total	<u>6.3</u>

Items measured at fair values

√ Applicable □ N/A

Unit: RMB in millions

	Opening balance	Closing balance	Change during the current period	Impact on profit of the current period (amount)
Tradable financial assets	33.3	123.6	90.3	153.2
Tradable financial liabilities	0	7.9	7.9	(8.1)
Financial guarantee contracts	3.7	3.7	0	0
Provision for retirement benefits	<u>32.1</u>	<u>34.4</u>	<u>2.3</u>	<u>(2.3)</u>
Total	<u>69.1</u>	<u>169.6</u>	<u>100.5</u>	<u>142.8</u>

3.3 Financial information prepared in accordance with HKFRSs

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

Unit: RMB in millions

	For the year ended 31 December				
	2007	2006	2005	2004	2003
Results					
Revenue	34,777.2	23,214.6	21,740.7	21,261.4	17,095.9
Cost of sales	(23,415.0)	(15,365.9)	(14,101.7)	(13,813.5)	(11,226.1)
Gross profit	11,362.2	7,848.7	7,639.0	7,447.9	5,869.8
Other income and revenue	1,028.0	724.7	516.9	492.8	192.2
Research and development costs	(3,210.4)	(2,832.7)	(1,959.5)	(2,265.2)	(1,535.7)
Selling and distribution costs	(4,531.5)	(3,274.7)	(3,186.4)	(2,799.6)	(1,981.5)
Administrative expenses	(1,718.2)	(1,097.6)	(1,095.4)	(981.4)	(869.0)
Other expenses	(898.2)	(191.5)	(128.6)	(162.4)	(213.9)
Profit from operating activities	2,031.9	1,176.9	1,786.0	1,732.1	1,461.9
Finance costs	(328.3)	(153.7)	(175.9)	(140.4)	(171.2)
Share of profit and loss of jointly controlled entities and associates	24.1	7.5	(4.2)	3.1	(3.6)
Profit before tax	1,727.7	1,030.7	1,605.9	1,594.8	1,287.2
Tax	(276.2)	(127.1)	(179.9)	(115.0)	(198.6)
Profit before minority interests	1,451.5	903.6	1,426.0	1,479.8	1,088.6
Attributable to: Minority interests	(199.3)	(136.6)	(138.3)	(207.3)	(60.3)
Attributable to: Shareholders of parent company	1,252.2	767.0	1,287.7	1,272.5	1,028.3

Unit: RMB in millions

	2007	As at 31 December		2004	2003
		2006	2005		
Assets and liabilities					
Total assets	40,977.9	26,787.2	22,464.0	21,007.8	16,476.4
Total liabilities	28,089.5	15,461.4	11,742.8	11,312.2	11,649.9
Minority interests	751.2	561.9	470.7	478.4	226.6
Shareholders' equity					
attributable to the parent	12,137.2	10,763.9	10,250.5	9,217.2	4,599.9

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

	2007	2006	2005	2004	2003
Basic earnings per share, basic (RMB/share)	1.30	0.80	1.34	1.57	1.28
Net asset per share (RMB/share)	12.65	11.22	10.68	9.61	6.89
Return on net assets	10.32%	7.13%	12.56%	13.81%	22.35%

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

3.4 Differences between PRC GAAP and HKFRSs

☐ Applicable ☒ N/A

The amounts of net profit and net asset of the Group for the year ended and as at 31 December 2007 calculated in accordance with PRC GAAP are entirely consistent with those calculated under HKFRSs.

4 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Changes in share capital during the year

(Unit: shares)

	At the beginning of the year		Increase/decrease as a result of the change (+,-)					At the end of the year	
	Number of shares	Percentage (%)	Issue of new shares	Bonus issue	Transfer from capital reserve	Others ¹	Sub-total	Number of shares	Percentage (%)
I. Shares subject to lock-up	312,264,805	32.54	—	—	—	-310,073	-310,073	311,954,732	32.51
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	310,982,741	32.41	—	—	—	—	—	310,982,741	32.41
3. Other domestic shares	1,282,064	0.13	—	—	—	-310,073	-310,073	971,991	0.10
Comprising: Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares (including shares held by senior management)	1,282,064	0.13	—	—	—	-310,073	-310,073	971,991	0.10
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign legal person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	647,256,845	67.46	—	—	—	310,073	310,073	647,566,918	67.49
1. RMB ordinary shares	487,105,805	50.77	—	—	—	310,073	310,073	487,415,878	50.80
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	160,151,040	16.69	—	—	—	—	—	160,151,040	16.69
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	<u>959,521,650</u>	100	—	—	—	—	—	<u>959,521,650</u>	100

Note: The change in the number of domestic natural person shares subject to lock-up was attributable to the partial release for A shares held by Directors, Supervisors and senior management of the Company in accordance with relevant PRC regulations during the reporting period. Details of the change is set out in Section 4.2.1 headed “Changes in shares subject to lock-up.”

4.2 Changes in shares subject to lock-up

4.2.1 Table of changes in shares subject to lock-up

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 the 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
Zhongxingxin	310,982,741	0	0	310,982,741	Shares subject to lock-up issued under share reform	Please see 4.2.2
Hou Weigui	219,600	54,900	0	164,700	Senior management shares subject to lock-up	25% portion of A shares held by Directors, Supervisors and senior management of the Company was unlocked on 22 May 2007 in accordance with relevant PRC regulations.
Yin Yimin	121,680	30,420	0	91,260	Senior management shares subject to lock-up	
Shi Lirong	95,760	23,940	0	71,820	Senior management shares subject to lock-up	
He Shiyu	91,007	22,752	0	68,255	Senior management shares subject to lock-up	
Zhang Taifeng	121,680	30,420	0	91,260	Senior management shares subject to lock-up	
Qu Deqian	10,020	2,505	0	7,515	Senior management shares subject to lock-up	
Wei Zaisheng	95,760	23,940	0	71,820	Senior management shares subject to lock-up	
Xie Daxiong	44,839	11,210	0	33,629	Senior management shares subject to lock-up	
Zhou Susu	95,760	23,940	7,500 (Note 1)	79,320	Senior management shares subject to lock-up	
Tian Wenguo	24,300	6,075	0	18,225	Senior management shares subject to lock-up	
Fang Rong	41,385	10,346	0	31,039	Senior management shares subject to lock-up	
Chen Jie	94,500	23,625	0	70,875	Senior management shares subject to lock-up	
Ding Mingfeng	61,756	15,439	0	46,317	Senior management shares subject to lock-up	
Ye Weimin	33,804	8,451	0	25,353	Senior management shares subject to lock-up	
Ni Qin	78,840	19,710	0	59,130	Senior management shares subject to lock-up	
Zhang Chuanhai	9,900	9,900	0	0	Senior management shares subject to lock-up	Former senior management whose shares were fully unlocked during 2007.
Zhang Xiufa	41,473	0	0	41,473	Shares subject to lock-up held by former senior management	Yet to be unlocked owing to personal reasons
Total	<u>312,264,805</u>	<u>317,573</u>	<u>7,500</u>	<u>311,954,732</u>		

Note 1: On 12 November 2007, Ms Zhou Susu, Senior Vice President of the Company, purchased 10,000 A shares of the Company, out of which 75% were automatically locked up pursuant to relevant PRC laws and regulations and added to the outstanding balance of shares subject to lock-up.

4.2.2 Time for listing and trading of shares subject to lock-up held by Zhongxingxin

No	Name of shareholders subject to lock-up	Numbers of shares held subject to lock- up (shares)	Time for listing and trading	Number of additional shares to be listed and traded (shares)	Lock-up conditions
1	Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin")	310,982,741	29 December 2007 (Note 2) 29 December 2008	47,976,083 263,006,658	Note 1

Note 1: The following undertakings relating to the Share Reform Plan were made by Zhongxingxin, the largest shareholder of the Company:

Statutory undertakings: to comply with the laws, regulations and rules and perform its statutory obligations, namely not to transfer or trade the listed shares, which are converted from the Non-circulating Shares, held by it within 12 months from the first trading day after implementation of the Share Reform Plan; and not to sell its original Non-circulating Shares amounting to more than five per cent (5%) of the total share capital of the Company by way of trading subsequent to their listing on the Shenzhen Stock Exchange within 12 months and not to sell more than ten per cent (10%) within 24 months after the above lock-up period.

Special undertakings: Where Zhongxingxin sells its shares during the period from the 13th month to the 24th month after such shares have been granted the right of listing and circulation on the Shenzhen Stock Exchange, the price at which the shares are sold shall not be less than RMB30.76 per share, which is 115% of the mathematical average of the closing prices of its A shares for the 60 trading days prior to the initial announcement made by the directors of the Company regarding the Share Reform Plan, that is, RMB26.75 per share (such price to be calculated on an ex-rights basis and net of any dividends, bonus issues and capitalisation of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company. The price of "RMB30.76" specified in the special undertaking by Zhongxingxin set out above has been adjusted to "RMB30.36" following the implementation of the 2005 and 2006 profit distribution plans of the Company on 14 July 2006 and 27 July 2007. Zhongxingxin had fulfilled this special undertaking.

Note 2: Scheduled partial unlocking on 29 December 2007 was postponed to 3 January 2008 as the period coincided with public holidays. For details, please refer to the Indicative Announcement of ZTE Corporation on the Release of Locked-up Shares published on the designated information disclosure website on 3 January 2008.

4.3 Shareholders

4.3.1 Top ten shareholders of the Company and top ten holders of shares not subject to lock-up as at 31 December 2007

Total number of shareholders 43,348 shareholders (of which 43,017 were holders of A shares and 331 were holders of H shares)

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 shares
1. Zhongxingxin	State-owned shareholders	35.08	336,574,339	310,982,741	None
2. HKSCC Nominees Limited	Foreign shareholders	16.66	159,823,439	0	Unknown
3. China International Domestic Demand Dynamic Stock Fund	Others	1.57	15,091,674	0	Unknown
4. Hunan Nantian (Group) Co., Ltd	Others	1.19	11,431,810	0	Unknown
5. China International Fund Management Alpha Stock Fund	Others	1.13	10,879,556	0	Unknown
6. China Bonus Mixed Type Fund	Others	1.11	10,680,805	0	Unknown
7. Fortune SGAM Industrial Selected Stock Fund	Others	1.04	10,000,000	0	Unknown
8. Boshi Value Growth Fund	Others	1.04	9,999,422	0	Unknown
9. Everbright Pramerica Quantified Core Fund	Others	0.89	8,512,422	0	Unknown
10. E Fund Value Selection Stock Fund	Others	0.76	7,334,980	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. HKSCC Nominees Limited	159,823,439	H shares
2. Zhongxingxin	25,591,598	A shares
3. China International Domestic Demand Dynamic Stock Fund	15,091,674	A shares
4. Hunan Nantian (Group) Co., Ltd	11,431,810	A shares
5. China International Fund Management Alpha Stock Fund	10,879,556	A shares
6. China Bonus Mixed Type Fund	10,680,805	A shares
7. Fortune SGAM Industrial Selected Stock Fund	10,000,000	A shares
8. Boshi Value Growth Fund	9,999,422	A shares
9. Everbright Pramerica Quantified Core Fund	8,512,422	A shares
10. E Fund Value Selection Stock Fund	7,334,980	A shares

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

1. Among the Company's top ten shareholders China International Domestic Demand Dynamic Stock Fund (3rd) and China International Fund Management Alpha Stock Fund (5th) are managed by the same fund manager, China International Fund Management Co., Ltd.
2. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and top ten holders of shares not subject to lock-up.
3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and 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

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

Name of shareholder	Circulating shares not subject to lock-up held on the date of listing (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	47,976,083	(22,384,485)	Reduction	25,591,598

4.4 Controlling shareholder and de facto controller

4.4.1 Changes in controlling shareholder and de facto controller

☐ Applicable ☒ N/A

4.4.2 Details of controlling shareholder and de facto controller

4.4.2.1 Name of controlling shareholder of the Company: Shenzhen Zhongxing Xin Telecommunications Equipment Company, Limited (“Zhongxingxin”)

Legal representative: Xie Weiliang

Date of incorporation: 29 April 1993

Registered capital: RMB100,000,000

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.

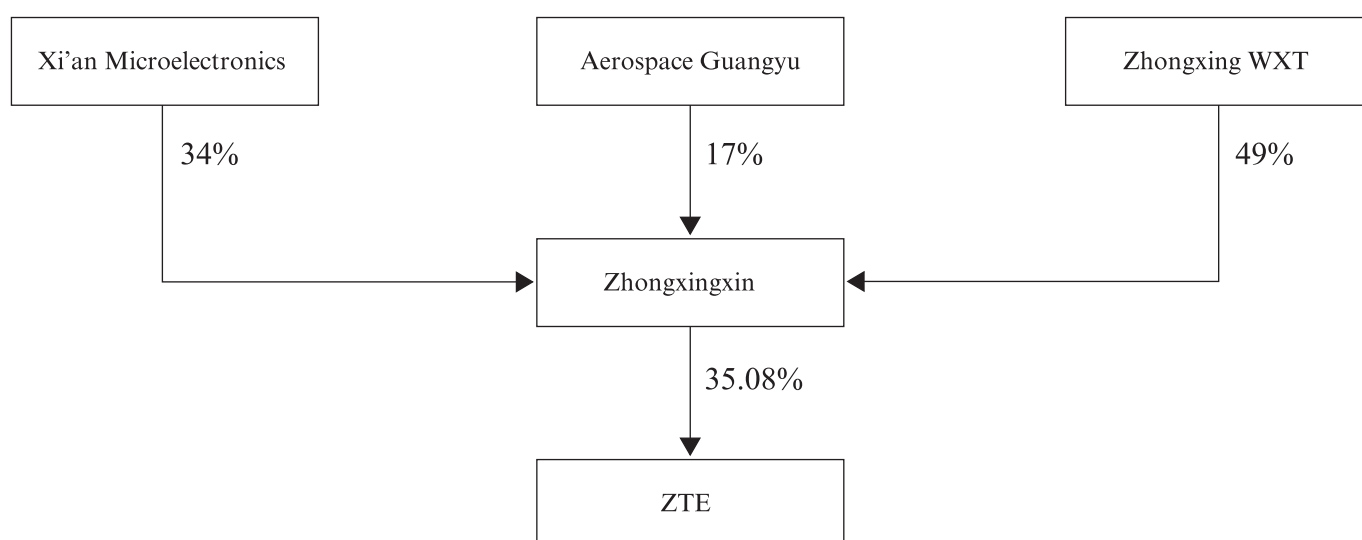
4.4.2.2 The controlling shareholders (or de facto controller) of the Company’s controlling shareholder

The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi’an Microelectronics Technology Research Institute (“Xi’an Microelectronics”), Shenzhen Aerospace Guangyu Industrial Group Company (“Aerospace Guangyu”) and Shenzhen Zhongxing WXT Equipment Company, Ltd (“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. Details of these three shareholders are as follows:

- Xi'an Microelectronics, a subsidiary of China Aerospace Times Electronics Corporation, 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 Mr. 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 Mr. 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 RMB10,000,000. The scope of business includes the development and production of telecommunications and transmission equipment, associated equipment, computer and peripheral equipment.

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2007:



5 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in the shareholdings and annual remuneration of Directors, Supervisors and senior management

Name	Title	Gender	Age	Term of office	Number of A shares held at the beginning of the year (shares)	Reason of change	Number of A shares held at the end of the year (shares)	Total pre-tax remuneration received from the Company during the reporting period (RMB10,000)	Quota of Subject Shares granted during the reporting period (A shares)			Market price of A shares at the end of the reporting period (RMB)	Whether remuneration is received from shareholder or other connected entities
									Quota of Subject Shares granted (shares)	Number of shares unlocked (shares)	Grant price (RMB)		
Hou Weigui	Chairman	Male	66	3/2007–3/2010	219,600	—	219,600	101.0	0	0	30.05	63.69	No
Wang Zongyin	Vice Chairman	Male	63	3/2007–3/2010	0	—	0	9.0	10,000	0	30.05	63.69	Yes
Xie Weiliang	Vice Chairman	Male	52	3/2007–3/2010	0	—	0	9.0	10,000	0	30.05	63.69	Yes
Zhang Junchao	Director	Male	54	3/2007–3/2010	0	—	0	9.0	10,000	0	30.05	63.69	Yes
Li Juping	Director	Male	52	3/2007–3/2010	0	—	0	9.0	10,000	0	30.05	63.69	Yes
Dong Lianbo	Director	Male	51	3/2007–3/2010	0	—	0	9.0	10,000	0	30.05	63.69	Yes
Yin Yimin	Director and President	Male	44	3/2007–3/2010	121,680	—	121,680	184.4	0	0	30.05	63.69	No
Shi Lirong	Director and Senior Vice President	Male	44	3/2007–3/2010	95,760	—	95,760	119.5	0	0	30.05	63.69	No
He Shiyong	Director and Senior Vice President	Male	41	3/2007–3/2010	91,007	—	91,007	137.60	0	0	30.05	63.69	No
Zhu Wuxiang	Independent Director	Male	42	3/2007–3/2010	0	—	0	9.0	0	0	30.05	63.69	No
Chen Shaohua	Independent Director	Male	46	3/2007–3/2010	0	—	0	9.0	0	0	30.05	63.69	No
Qiao Wenjun	Independent Director	Male	37	3/2007–3/2010	0	—	0	9.0	0	0	30.05	63.69	No
Mi Zhengkun	Independent Director	Male	62	3/2007–3/2010	0	—	0	9.0	0	0	30.05	63.69	No
Li Jin	Independent Director	Male	40	3/2007–3/2010	0	—	0	9.0	0	0	30.05	63.69	No
Zhang Taifeng	Chairman of Supervisory Committee	Male	66	3/2007–3/2010	121,680	—	121,680	100.7	0	0	30.05	63.69	No
Wang Wangxi	Supervisor	Male	41	3/2007–3/2010	0	—	0	54.3	0	0	30.05	63.69	No
He Xuemei	Supervisor	Female	37	3/2007–3/2010	0	—	0	33.7	0	0	30.05	63.69	No
Qu Deqian	Supervisor	Male	46	3/2007–3/2010	10,020	—	10,020	0	0	0	30.05	63.69	Yes
Wang Yan	Supervisor	Female	43	3/2007–3/2010	0	—	0	0	0	0	30.05	63.69	Yes
Wei Zaisheng	Senior Vice President and Chief Financial Officer	Male	45	3/2007–3/2010	95,760	—	95,760	106.3	0	0	30.05	63.69	No
Xie Daxiong	Senior Vice President	Male	44	3/2007–3/2010	44,839	—	44,839	129.7	100,000	0	30.05	63.69	No
Zhou Susu	Senior Vice President	Female	53	3/2007–3/2010	95,760	Note 1	95,760	97.9	0	0	30.05	63.69	No
Tian Wenguo	Senior Vice President	Male	39	3/2007–3/2010	24,300	Note 2	18,225	123.9	100,000	0	30.05	63.69	No
Qiu Weizhao	Senior Vice President	Male	44	3/2007–3/2010	0	—	0	118.8	100,000	0	30.05	63.69	No
Chen Jie	Vice President	Female	49	3/2007–3/2010	94,500	—	94,500	124.6	100,000	0	30.05	63.69	No
Fang Rong	Vice President	Female	43	3/2007–3/2010	41,385	—	41,385	106.7	100,000	0	30.05	63.69	No
Zhao Xianming	Vice President	Male	41	3/2007–3/2010	0	—	0	116.5	180,000	0	30.05	63.69	No
Ding Mingfeng	Vice President	Male	38	3/2007–3/2010	61,756	—	61,756	90.3	100,000	0	30.05	63.69	No
Pang Shengqing	Vice President	Male	39	3/2007–3/2010	0	—	0	85.0	150,000	0	30.05	63.69	No
Fan Qingfeng	Vice President	Male	39	3/2007–3/2010	0	—	0	153.0	150,000	0	30.05	63.69	No
Zeng Xuezhong	Vice President	Male	34	3/2007–3/2010	0	—	0	151.5	150,000	0	30.05	63.69	No
Xu Huijun	Vice President	Male	34	3/2007–3/2010	0	—	0	118.4	180,000	0	30.05	63.69	No
Yu Yong	Vice President	Male	41	3/2007–3/2010	0	—	0	64.9	150,000	0	30.05	63.69	No
Ye Weimin	Vice President	Male	41	3/2007–3/2010	33,804	—	33,804	100.4	100,000	0	30.05	63.69	No
Zhong Hong	Vice President	Male	38	3/2007–3/2010	0	—	0	56.7	150,000	0	30.05	63.69	No
Ni Qin	Vice President	Male	48	3/2007–3/2010	78,840	—	78,840	97.0	100,000	0	30.05	63.69	No
Wu Zengqi	Vice President	Male	43	3/2007–3/2010	0	—	0	95.9	150,000	0	30.05	63.69	No
(Note 3)													
Feng Jianxiong	Secretary to the Board	Male	34	3/2007–3/2010	0	—	0	50.8	100,000	0	30.05	63.69	No
Total	—	—	—	—	1,230,691	—	1,224,616	2,809.5	2,210,000	0	—	—	—

Note 1: Ms Zhou Susu sold and then purchased 10,000 A shares in the Company.

Note 2: Mr Tian Wenguo disposed of 6,075 A shares in the Company.

Note 3: Mr Wu Zengqi was granted 150,000 A shares as quota of Subject Shares prior to taking the office of Vice President.

Note 4: Directors' allowance for non-executive Directors and Independent Directors without other employment positions at the Company had been adjusted from RMB60,000 to RMB100,000 before tax per annum, with effect from April 2007.

5.2 Directors', Supervisors' and President's interests in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2007 are set out in Section 5.1.

Save as disclosed above, as at 31 December 2007, 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 by the Company under Section 352 of the Securities and Futures Ordinance, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange Listing Rules").

As at 31 December 2007, none of the Directors, Supervisors or the President of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

6 REPORT OF THE BOARD OF DIRECTORS

6.1 Discussion and analysis of overall operations during the reporting period

6.1.1 Review of Results

Business of the Group

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

Financial Results

Please refer to the financial statements appended to this annual report summary for the results of the Group for the year ended 31 December 2007 prepared in accordance with PRC GAAP and HKFRSs.

Overview of the PRC telecommunications industry in 2007

China's telecommunications industry maintained sustainable growth during 2007. According to the statistics from the Ministry of Information Industry, revenue for the telecommunications sector in China grew by 10.9% to RMB728.01 billion in 2007, as compared to the same period last year. Fixed assets investments from telecommunications carriers grew 4.3% to RMB227.99 billion.

In 2007, the overall scale of leading manufacturers had been significantly expanded in the wake of further consolidation of markets shares by established players.

Overview of the global telecommunications industry in 2007

The global communications market continued to be dominated by the themes of mobile communication, broadband connection and service integration in 2007. Mobile networks in developed countries were speeding up transition to new-generation technologies, while wireless network systems were still the products to watch in emerging markets as they overtook wireline products in terms of investment scale. The rapid development of emerging markets was becoming a new driving force to the global communications market.

Increasing competition in the industry in the wake of mergers and restructuring of carriers and equipment manufacturers catalysed the process of business diversification for carriers, notably with mainstream players increasing their investments in emerging markets.

Operating results of the Group for 2007

The Group's business sustained rapid growth during the reporting period as its international operations enjoyed rapid development in 2007. Sales revenue of the Group based on financial statements prepared in accordance with PRC GAAP amounted to RMB34.777 billion, representing a year-on-year growth of 49.81%. Net profit grew 63.26% to RMB1,252 million.

By market:

The domestic market

The Group's revenue from its domestic operations amounted to RMB14.687 billion in 2007, representing a year-on-year growth of 13.83%. The Group delivered outstanding results in its operations of TD-SCDMA and GSM products as it continued to implement its strategies of product differentiation and cost leadership in full appreciation of the development trends of the domestic communications market. Meanwhile, we further strengthened ties with domestic mainstream carriers like China Mobile, China Telecom, China Unicom and China Netcom through the provision of quality products and services.

The international market

In 2007, the Group's revenue from its international principal operations grew 94.83% to RMB20.091 billion and accounted for 57.77% of its total revenue, which was 13.35 percentage points higher compared the previous year. Growth of revenue from our international business was driven by continued revenue growth in emerging markets and increased sales in developed countries.

By product:

Wireless communications products

Sales of the Group's wireless communications products grew rapidly in 2007. Our GSM sales registered significant year-on-year growth with surging market share, drawing on new markets and carrier-customers with strong potentials highlighted by groundbreaking sales to certain high-end carriers while maintaining its presence in traditional strongholds. Significant progress was achieved in the 3G business as our TD-SCDMA wireless network and core network products secured significant market shares in tendering process for the construction of the extended trial network for TD-SCDMA large-scale network technology application organised by carriers. Our WCDMA products gained significant international access as we further improved the market mix for this product segment. Our CDMA products continued to register sales growth.

Wireline switch and access products

In 2007, the Group maintained growth in the segment of wireline switch and access products by closely monitoring the trend of network integration in the communications market and committing investments in a focused manner.

Optical and data communications and products

The Group's optical business sustained rapid growth during the year with a substantially enlarged market coverage, capitalising on the global trend of broadband application in telecommunications.

Handsets

The Group's handset business enjoyed rapid growth in 2007. Handset sales exceeded major benchmarks as closer ties with multinational carriers provided solid support for our business development. There was also significant growth in oversea sales, which accounted for increasing weight in the Group's total handset sales. Sales growth has been spearheaded by GSM and WCDMA handsets and we will continue to enhance brand building for our handset products and investment in high-end handsets to assure sustained growth for our handset segment.

Miscellaneous

The Group secured growth in value-added services and network management businesses in 2007 with the benefit of increased carrier investments in these two areas.

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

	Sales revenue (RMB in millions)	Operating costs (RMB in millions)	Operating profit margin (%)	Year-on-year increase/ decrease in sales revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in operating profit margin (basis point)
By industry						
Manufacturing of communication systems	34,777.2	23,004.5	33.85%	49.81%	50.62%	(0.36)
By product						
Wireless communications systems	14,851.5	8,283.5	44.22%	61.66%	58.86%	0.98
Wireline switch and access systems	1,350.1	751.5	44.34%	(40.77%)	(44.47%)	3.71
Optical and data communications systems	6,365.9	4,362.2	31.48%	64.30%	48.44%	7.32
Handset	7,645.1	5,939.8	22.31%	69.16%	75.38%	(2.75)
Telecommunication software systems, services and other products	4,564.6	3,667.5	19.65%	36.09%	54.11%	(9.39)

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

Region	Sales revenue (RMB in millions)	Year-on-year increase/ decrease in sales revenue
The PRC	14,686.6	13.83%
Asia (excluding the PRC)	9,679.4	67.26%
Africa	5,484.8	111.21%
Other regions	4,926.4	155.54%
Total	<u><u>34,777.2</u></u>	<u><u>49.81%</u></u>

6.4 Management discussion and analysis prepared in accordance with HKFRSs

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

Unit: RMB in millions

	2007	2006
Revenue		
Wireless communications systems	14,851.5	9,186.9
Wireline switch and access systems	1,350.1	2,279.4
Optical and data communications systems	6,365.9	3,874.6
Handset	7,645.1	4,519.5
Telecommunication software systems, services and other products	4,564.6	3,354.1
Total revenue	34,777.2	23,214.6
Cost of sales	(23,415.0)	(15,365.9)
Gross profit	11,362.2	7,848.7
Other income and revenue	1,028.0	724.7
Research and development costs	(3,210.4)	(2,832.7)
Selling and distribution costs	(4,531.5)	(3,274.7)
Administrative expenses	(1,718.2)	(1,097.6)
Other expenses	(898.2)	(191.5)
Profit from operating activities	2,031.9	1,176.9
Finance costs	(328.3)	(153.7)
Share of profit and loss of jointly controlled entities and associates	24.1	7.5
Profit before tax	1,727.7	1,030.7
Tax	(276.2)	(127.1)
Profit before minority interests	1,451.5	903.6
Attributable to:		
Minority interests	(199.3)	(136.6)
Attributable to:		
Shareholders of parent company	1,252.2	767.0
Dividend	239.9	143.9
Earnings per share — Basic	RMB1.30	RMB0.80
— Diluted	RMB1.29	RMB0.80

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	2007		2006	
	Revenue	As a percentage of total revenue	Revenue	As a percentage of total revenue
Wireless communications systems	14,851.5	42.7%	9,186.9	39.6%
Wireline switch and access systems	1,350.1	3.9%	2,279.4	9.8%
Optical and data communications systems	6,365.9	18.3%	3,874.6	16.7%
Handset	7,645.1	22.0%	4,519.5	19.5%
Telecommunication software systems, services and other products	4,564.6	13.1%	3,354.2	14.4%
Total	<u>34,777.2</u>	<u>100.0%</u>	<u>23,214.6</u>	<u>100.0%</u>

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

Unit: RMB in millions

Region	2007		2006	
	Revenue	As a percentage of total revenue	Revenue	As a percentage of total revenue
The PRC	14,686.6	42.2%	12,902.8	55.6%
Asia (excluding the PRC)	9,679.4	27.8%	5,787.1	25.0%
Africa	5,484.8	15.8%	2,596.8	11.2%
Other regions	4,926.4	14.2%	1,927.9	8.2%
Total	<u>34,777.2</u>	<u>100.0%</u>	<u>23,214.6</u>	<u>100.0%</u>

The Group's sales revenue increased to RMB34,777.2 million in 2007, a 49.8% growth compared to last year. Sales revenue from international sales continued to register strong growth, increasing by 94.8% to RMB20,090.6 million. Analysed by product, revenue from the wireless communications products, handsets, optical and data communications systems and telecommunication software systems, services and other products recorded year-on-year growth, offsetting decrease in sales revenue from wireline switch and access products to result in significant growth in total sales revenue for the Group for 2007 versus the same period last year.

The growth in sales revenue from the Group's wireless communications segment was attributable mainly to increased international sales of its CDMA and GSM systems and domestic sales of its GSM systems and TD-SCDMA systems.

The decline in sales revenue from the Group's wireline switch and access segment was attributable mainly to reduced investments in such equipment by carriers.

The growth in sales revenue from the Group's optical and data communications segment was attributable mainly to increased sales of optical communications systems, DSL and other data communications products.

Sales revenue from the Group's handset product segment rose in tandem with substantial growth in the international sales of CDMA, 3G and GSM handsets.

Revenue generated from the sales of the Group's telecommunications software systems, services and other products increased mainly as a result of increased sales of the Group's video and network terminals as well as monitoring equipment.

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

Product segment	<i>Unit: RMB in millions</i>			
	2007		2006	
	Cost of sales	As a percentage of revenue from the product segment	Cost of sales	As a percentage of revenue from the product segment
Wireless communications systems	8,379.9	56.4%	5,276.6	57.4%
Wireline switch and access systems	777.1	57.6%	1,361.5	59.7%
Optical and data communications systems	4,467.8	70.2%	2,959.8	76.4%
Handset	5,985.9	78.3%	3,364.5	74.4%
Telecommunication software systems, services and other products	3,804.3	83.3%	2,403.5	71.7%
Total	<u>23,415.0</u>	<u>67.3%</u>	<u>15,365.9</u>	<u>66.2%</u>

Unit: RMB in millions

Product segment	2007		2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Wireless communications systems	6,471.6	43.6%	3,910.3	42.6%
Wireline switch and access systems	573.0	42.4%	917.9	40.3%
Optical and data communications systems	1,898.1	29.8%	914.8	23.6%
Handset	1,659.2	21.7%	1,155.0	25.6%
Telecommunication software systems, services and other products	760.3	16.7%	950.6	28.3%
Total	11,362.2	32.7%	7,848.7	33.8%

Cost of sales of the Group of 2007 increased 52.4% as compared to last year to RMB23,415.0 million. The Group's overall gross profit margin was 32.7%, 1.1 percentage points down from 33.8% last year, primarily as a result of lower gross profit margin for handsets, telecommunications software systems, services and other products, although the decline was partially offset by improved gross profit margin of wireless communications, wireline switch and access and optical and data communication products.

Cost of sales for the Group's wireless communications systems increased by 58.8% to RMB8,379.9 million, while the segment's gross profit margin was 43.6% compared to 42.6% last year. The improved gross profit margin for wireless communications systems mainly reflected increased weighting of CDMA systems and TD-SCDMA systems which commanded higher gross profit margin.

Cost of sales for the Group's wireline switch and access products amounted to RMB777.1 million, reducing by 42.9% compared to last year. Gross profit margin for the Group's wireline switch and access segment rose to 42.4% from 40.3% last year, mainly as a result of reducing costs for the product.

Cost of sales for the Group's optical and data communications products amounted to RMB4,467.8 million, increasing by 50.9% compared to last year. The increase in gross profit margin for the Group's optical and data communications segment to 29.8% from 23.6% for last year was attributable mainly to the improved gross profit margin for optical communications systems and DSL products.

Cost of sales for the Group's handset products amounted to RMB5,985.9 million, increasing by 77.9% compared to last year. Gross profit margin for the Group's handsets segment was lower at 21.7% as compared to 25.6% last year mainly in tandem with lower gross profit margin for CDMA handsets, although such decline was partially offset by gross profit margin improvements in the international sales of 3G handsets and domestic sales of GSM handsets.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB3,804.3 million, increasing by 58.3% compared to last year, with a gross profit margin of 16.7%, compared to 28.3% for last year. The decline in gross profit margin for the segment reflected primarily increased sales of lower margin network terminal and other products combined with decreased sales of higher margin products, as a percentage of total sales revenue for the segment.

Other income and revenue

Other income and revenue of the Group for 2007 amounted to RMB1,028.0 million, representing a 41.9% growth compared to RMB724.7 million for 2006. The increase reflected primarily growth in VAT rebates for software products.

Research and development costs

The Group's research and development costs for 2007 increased by 13.3% to RMB3,210.4 million from RMB2,832.7 million for 2006, but decreased from 12.2% to 9.2% as a percentage of sales revenue. The decrease as a percentage of sales revenue despite growth in gross amount was attributable mainly to economies of scale and the partial capitalisation of research and development expenditure.

Selling and distribution costs

The Group's selling and distribution costs for 2007 increased by 38.4% to RMB4,531.5 million from RMB3,274.7 million for 2006, but decreased from 14.1% to 13.0% as a percentage of sales revenue. The decrease as a percentage of sales revenue despite growth in gross amount was attributable mainly to economies of scale.

Administrative expenses

Administrative expenses of the Group for 2007 increased by 56.5% to RMB1,718.2 million, as compared to RMB1,097.6 million for 2006, but were little changed as a percentage of sales revenue at 4.9%, compared to 4.7% for 2006.

Other expenses

The Group recorded other operating expenses of RMB898.2 million for 2007, increasing by 369.0% as compared to RMB191.5 million for 2006. This was primarily the result of an increase in the Group's bad debt provision.

Profit from operating activities

The Group's profit from operating activities for 2007 increased by 72.6% to RMB2,031.9 million from RMB1,176.9 million for 2006, while the operating profit margin grew from 5.1% for 2006 to 5.8% for 2007, primarily as a result of expanded business scale coupled with reduced research and development costs and selling expenses as a percentage of sales revenue.

Finance costs

Finance costs of the Group for 2007 increased by 113.6% to RMB328.3 million from RMB153.7 million for 2006 primarily as a result of increased amounts in interest-bearing bank borrowings.

Tax

The Group's income tax expense for 2007 was RMB276.2 million, a 117.3% rise compared to RMB127.1 million for 2006, which was mainly the result of 67.6% increase in the Group's pre-tax profit for 2007 coupled with a higher effective tax rate of 16.0% (2006: 12.3%) owing to increased effective tax liabilities of the Group's overseas business.

Profit attributable to minority interests

The Group's minority interests for 2007 amounted to RMB199.3 million, representing a 45.9% growth as compared to RMB136.6 million for 2006. Minority interests decreased from 15.1% in 2006 to 13.7% in 2007 as a percentage of profit before minority interests. The decrease mainly reflected reduced profit contributions from subsidiaries with a higher level of minority interests.

Gearing ratio and the basis of calculation

The Group's gearing ratio for 2007 was 33.5%, up 14.7 percentage points from 18.8% in 2006, attributable mainly to the increase in interest-bearing loans. The gearing ratio represented total interest bearing loans as a percentage of total capital.

Liquidity and capital resources

In 2007, 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 2007 amounted to RMB6,309.7 million.

Cash flow data

Unit: RMB in millions

	2007	2006
Net cash inflow/(outflow) from operating activities	(552.1)	(2,106.3)
Net cash inflow/(outflow) from investing activities	(1,655.7)	(1,115.2)
Net cash inflow/(outflow) from financing activities	4,366.8	1,975.6
Net increase/(decrease) in cash and cash equivalents	2,159.1	(1,245.9)
Cash and cash equivalents at year-end	6,309.7	4,142.1

Operating activities

The Group had a net cash outflow from operating activities of RMB552.1 million for 2007 compared to a net cash outflow of RMB2,106.3 million for 2006, driven by a year-on-year increase of approximately RMB12,477.7 million in cash inflow reflecting mainly increased sales revenue complemented by stronger efforts in cash collection and an increase in cash inflow from tax rebates of approximately RMB1,244.8 million. On the other hand, cash outflow used in purchases increased by only RMB6,997.8 million as a result of enhanced suppliers' financing and the adoption of bills payable. Research and development and marketing investments increased by approximately RMB3,428.2 million. Payments made to or on behalf of employees increased by RMB1,264.3 million, while tax payments increased by RMB464.2 million. In 2007, the Group's receivables turnover rate was 4.2 compared to 3.7 in 2006. Inventory turnover rate was 6.0 compared to 6.5 in 2006. Payables turnover rate was 2.5 compared to 2.3 in 2006.

Investing activities

The net cash outflow from the Group's investment activities for 2007 was RMB1,655.7 million compared to a net cash outflow of RMB1,115.2 million for 2006. The cash outlay was mainly used for the acquisition of machinery and equipment, testing apparatus and additional office equipment, as well as in the construction of the ZTE Industrial Park in Shenzhen and research and development centers in Nanjing and Shanghai.

Financing activities

The Group's a net cash inflow from financing activities for 2007 was RMB4,366.8 million (2006: RMB1,975.6 million) which mainly reflected a net increase of RMB3,863.7 million in new loans.

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	2007	2006
Purchases of fixed assets and additions to construction in progress	1,494.3	1,135.7

The Group's capital expenditure in 2007 amounting to RMB1,494.3 million was mainly used to complete the construction of the ZTE research and development center in Shenzhen and purchase other equipment and facilities.

Indebtedness

Unit: RMB in millions

	As at 31 December	
	2007	2006
Secured bank loans	866.4	394.7
Unsecured bank loans	5,622.2	2,230.2

Unit: RMB in millions

	As at 31 December	
	2007	2006
Short-term bank loans	4,403.4	945.7
Long-term bank loans	2,085.2	1,679.2

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 2007 increased mainly as a result of the borrowing of bank loans to provide additional working capital.

Contractual obligations

Unit: RMB in millions

	As at 31 December 2007			
	Total	Less than one year	Two to five years	More than five years
Bank loans	6,488.6	4,403.4	1,625.0	460.2
Operating lease obligations	—	—	—	—

Contingent liabilities

Unit: RMB in millions

	As at 31 December	
	2007	2006
Factored trade receivables	—	107.2
Guarantees given to banks in respect of performance bonds	5,093.5	5,200.6
Total	<u>5,093.5</u>	<u>5,307.8</u>

Capital Commitments

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

Unit: RMB in millions

As at 31 December
2007 2006

Land and buildings

Contracted, but not provided for	582.3	796.0
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Investment in an associate

Contracted, but not provided for	255.2	80.3
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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 2007 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs.

Prospects for New Business

Details of the prospects for new business of the Group are set out in the section headed “Business outlook for 2008” in the Annual Report.

Employees

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2007 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees” and “Corporate Governance Structure” in the Annual Report.

Charges on Assets

Details of charges on the Group’s assets as at 31 December 2007 are set out in note 33 to the financial statements prepared under HKFRSs.

Plans for Material Investments or Acquisition of Capital Assets

Details of the Group’s material investments and their performance and prospects as at 31 December 2007 are set out section headed “Report of the Board of Directors” in the Annual Report.

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

Market Risks

Interest rate risks:

The interest rate risk of the Group was mainly associated with the Company's interest bearing long term liabilities. The Group controlled its interest rate risk mainly by rescheduling the maturity period of its debts.

Foreign Exchange risks:

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 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 business characteristics of the Company and international standards in risk management with ongoing improvements and has gained considerable experience in the conduct of exchange risk management through the extensive use of exchange-related derivative products.

6.5 Use of proceeds

√ Applicable □ N/A

6.5.1 Relevant Scheme Participants of the Phase I Share Incentive Scheme of the Company paid subscription amounts for their Subject Shares between 14 March 2007 and 18 March 2007, which will be used as additional working capital for the Company. For details regarding the terms, progress and accounting treatment of the Phase I Share Incentive Scheme of the Company, please refer to the section headed "Material Matters" in the 2007 Annual Report.

6.5.2 Use of proceeds from the offer and issue of bonds cum warrants by the Company

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 National Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008.

Proceeds from the issue after deducting issue expenses were applied to 11 projects as follows, with a total project investment of approximately RMB6.55 billion:

No	Name of project	Planned investment for the project (RMB in ten thousands)
1	The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment	18,782
2	The building-up of the development environment and scale production capacity of TD-SCDMA terminal products	11,776
3	Industrialisation of TD upgrade technology	67,326
4	Construction of innovative handset platform	174,915
5	Construction of next generation broadband wireless mobile SDR platform	53,358
6	Industrialisation of next generation IP-based amalgamation network for full multi-media services	39,727
7	Research, development and production of integrated network management system	56,635
8	Industrialisation of XPON optical access	49,371
9	Industrialisation of next generation optical network transmission equipment	64,108
10	Construction of ICT integrated business platform	99,647
11	Industrialisation of RFID systems integration	19,394
Total		<u>655,039</u>

In order to expedite the construction of issue proceed 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.

Changes to projects committed

☐ Applicable ☒ N/A

6.6 Investments using funds other than issue proceeds

☒ Applicable ☐ N/A

In December 2007, Zhongxing Energy Limited (中興能源有限公司) was established with a registered capital of RMB1,290,000,000 by the Company in joint venture with connected parties Zhongxing WXT, Shenzhen Zhongxing Development Company, Limited (深圳中興發展有限公司), ZTE Investment Ltd (深圳市中興國際投資有限公司), Zhongxing International and Mr. Hou Weigui, Chairman of the Company. The Company is interested in approximately 23.26% of the registered capital of the Joint Venture Company with a capital contribution of RMB300 million. Zhongxing Energy Limited (中興能源有限公司) is principally engaged in the research and development, investment, generation and sale in the area of energy business. For further details, please refer to the “Announcement of Connected Transactions” and “Announcement of Progress of Connected Transactions” of the Company dated 26 October 2007 and 5 December 2007, respectively.

6.7 Explanatory statement by the Board of Directors in respect of qualified auditors’ report from accountants

☐ Applicable ☒ N/A

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

☒ Applicable ☐ N/A

Net profit of the Company for the year 2007 calculated in accordance with PRC GAAP amounted to RMB25,335,000. Profit available for distribution amounted to RMB1,657,752,000 after adding the undistributed profit of RMB1,632,417,000 carried forward at the beginning of the year. Net profit of the Company for the year 2007 calculated in accordance with HKFRSs amounted to RMB20,714,000. Profit available for distribution amounted to RMB1,663,298,000 after adding the undistributed profit of RMB1,642,584,000 carried forward at the beginning of the year. 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 GAAP and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB1,657,752,000. The proposed profit distribution and capitalisation from capital reserve for 2007 recommended by the Board of Directors of the Company is as follows:

Proposed profit distribution for 2007: RMB2.5 for every 10 shares (including tax) or a total of RMB239,880,000 in cash, based on the Company’s total share capital of 959,521,650 shares as at 31 December 2007.

Proposed capitalisation from capital reserve for 2007: the creation of 4 shares for every 10 shares by way of capitalisation of capital reserves, representing a total increase of 383,808,660 shares based on the Company’s total share capital of 959,521,650 shares as at 31 December 2007.

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

☐Applicable ☒ N/A

6.9 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.

6.10 Business outlook and risk exposure of the Company

6.10.1 Business outlook for 2008

2008 is set to be a year of development for the domestic communications market, while stable growth is expected in the international scene. The Group's business development is expected to be driven by large-scale construction of 3G networks and swift growth in its handset and optical communication businesses.

The Group will continue to implement its stated strategies by reinforcing the development of GSM, CDMA, optical networks and service products, as well as key products such as GSM handsets and WCDMA handsets. We will also increase marketing efforts in TD-SCDMA/WCDMA products and TD-SCDMA handsets to capitalise on opportunities arising in the fast-growing 3G market. Increased investments will be committed to TD-SCDMA and WCDMA products, while preliminary research on technological advancements relating to new-generation broadband wireless and optical networks will be enhanced to further increase the cutting edge of our products. We will continue to reinforce our position in the domestic market and increase our presence internationally, with a view to forming a balanced global market mix. Meanwhile, we will also seek to improve our logistical efficiency and project execution capabilities to ensure swift business development in a healthy and sustainable manner.

To achieve the goals of development described above, the Group will secure its funding sources mainly by improving its operating efficiency, speeding up the turnover of funds and applying issue proceeds in a reasonable manner. Depending on market conditions, any additional funding requirements will be satisfied through the reasonable and effective use of financing tools, including bank loans.

6.10.2 Risk exposure

(1) Policy risks

Investments in system equipment, especially in the case of China, are subject to macro-economic factors such as government policies.

(2) Foreign exchange risks

The Group will continue to experience imbalances in foreign exchange payments with the growth of its international business. Meanwhile, there are long-term risks relating to competition and foreign currency transaction as a result of the appreciation of RMB.

(3) Credit risks

The Group will encounter differing customer groups in developing its business of providing one-stop communications solutions, and its business will be affected by the varied credit profiles of these customers.

(4) International market risks

The Group has now established business presence in over 120 countries and regions. Such geographic coverage demands a high level of skills in business operation to cope with issues arising from differences in political and economic conditions, laws and regulations and cultural traditions.

7. MATERIAL MATTERS

7.1 Acquisition of assets

☐ Applicable ☒ N/A

7.2 Disposal of assets

☐ Applicable ☒ N/A

7.3 Material guarantees

☒ Applicable ☐ N/A

Third party guarantees provided by the Company (excluding guarantees 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 (<i>Note 1</i>)	11 December 2006	73,923,700 Indian Rupee (approximately RMB13,690,000)	Assurance	3 years	No	No
Benin Telecoms S.A.	28 June 2007	US\$3 million	Assurance	6.5 years	No	No
Total amount guaranteed during the year					US\$3 million	
Total balance of amount guaranteed at the end of the year (A)					RMB85,604,500	
Guarantees provided in favour of subsidiaries						
Total amount guaranteed in favour of subsidiaries during the year (<i>Note 2</i>)					US\$11,405,500	
Total amount guaranteed among subsidiaries during the year					RMB27,105,000	
Total balance of amount guaranteed in favour of subsidiaries at the end of the year (B)					US\$11,523,100 RMB63,527,000	
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)						
Total guaranteed amount (A+B)					RMB211,389,100	
Total guaranteed amount as a percentage of net assets of the Company at the end of the year of which:					1.74%	
Amounts of guarantees provided in favour of shareholders, de facto 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% (<i>Note 3</i>) (D)					US\$11,405,500	
Amount of total guarantee exceeding 50% of net assets (E)					0	
Aggregate amount of the three guarantee amounts stated above (C+D+E)					US\$11,405,500	

- Note 1:* Guarantee in favour of United Telecoms Limited of India provided by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company, in the form of a bank-issued irrevocable standby letter of credit.
- Note 2:* Guarantee provided by ZTE (H.K.) Limited, 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 (H.K.) Limited 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 US\$3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.
- Note 3:* In addition to guarantees described in Note 2, the Company provided a guarantee in respect of a bank loan extended to subsidiary Congo-Chine Telecom S.A.R.L. by pledging its 51% equity interests in Congo-Chine Telecom S.A.R.L. As the gearing ratio of Congo-Chine exceeded 70%, the said guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations.
- Note 4:* Guaranteed amounts denominated in Indian Rupee are translated at the exchange rate of 1 Indian Rupee to RMB0.1852 (being the exchange rate published by the People's Bank of China on 28 December 2007). Guaranteed amounts denominated in US dollars are translated at the exchange rate of US\$1 to RMB7.3046 (being the exchange rate published by the People's Bank of China on 28 December 2007).
- Note 5:* 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.

7.4 Significant connected transactions

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

√ Applicable □ N/A

Classification	Member of the Group (party to connected transaction)	Connected person (counterparty to connected transaction)	Subject matter	Pricing basis	Transaction price	Amounts of connected transactions for January to December 2007 (Excluding VAT) (RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchase of raw materials	ZTE Kangxun	Zhongxingxin and subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou	Various products such as cabinets, cases, distribution frames, soft circuit boards and shelters	Consistent with market prices (as per contract)	Cabinets: RMB2,000–RMB15,000 per unit; cases: RMB40–RMB4,000 per unit depending on level of sophistication; distribution frames and accessories: RMB2–RMB600 per unit depending on level of sophistication; Flexible printed and shelters circuit boards (FPC): Two-sided: RMB0.15–RMB0.18 per sq. m. One-sided: RMB0.1–RMB0.15 per sq. m.; Shelter: RMB30,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	70,568.14	3.29%	Banker's acceptance bill	No
		Zhongxing WXT and subsidiary Shenzhen Gaodonghua Communication Technology Co., Ltd.	IC, connector, assemblies, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC (built-in): RMB100–RMB1,000 per unit depending on brand, capacity and technical parameters; plugs and connectors: RMB1–RMB50 per unit depending on the structure and raw materials; Optical components: RMB120–RMB17,500 per unit depending on materials performance	12,426.67	0.58%	Banker's acceptance bill	No
		Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Communications antennas and radio frequency transmission devices	Consistent with market prices (as per contract)	Communication antenna: RMB320–RMB2,500 per piece depending on technical parameters and functional features; radio frequency transmitter: RMB350–RMB4,100 per unit, depending on technical parameters and functional features.	24,090.00	1.12%	Banker's acceptance bill	No
Property leasing	ZTE Corporation	Zhongxingxin (lessor)	Property located at No. 800 Tianfu Avenue Central, Chengdu, Sichuan with a leased area of 15,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB40/sq. m. (ZTE will be responsible for property management and management fees are not payable)	438.14	1.13%	Banker's acceptance bill	No
		Zhongxingxin (lessor)	Property located at Jinye Road, Electronics City, Xi'an, Shaanxi with a leased area of 44,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB42.5/sq. m. (inclusive of RMB2.5/sq. m. as monthly management fees)	1,463.70	3.77%	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.	Consistent with market prices (as per contract)	Monthly rent of RMB115/sq. m. (ZTE will be responsible for property management and management fees are not payable)	2,141.76	5.52%	Banker's acceptance bill	No

Connected transactions involving sales of products or provision of labour services to the controlling shareholder and its subsidiaries by the listed company during the reporting period amounted to RMB337,600.

7.4.2 Current connected creditor's rights and debts

□ Applicable √ N/A

7.4.3 Fund appropriations in 2007 and progress of repayment as at year-end

□ Applicable √ N/A

Additional fund appropriations in 2007

☐ Applicable ☒ N/A

Failure of listed companies to repay fund appropriations for non-business purposes as at the end of 2007, reasons for such failure, repayment measures adopted and responsibility investigations plans

☐ Applicable ☒ N/A

7.5 Entrusted fund management

☐ Applicable ☒ N/A

7.6 Performance of undertakings

☒ Applicable ☐ N/A

7.6.1 Undertaking given by shareholders with holdings of more than 5% (i.e. Zhongxingxin) in respect of the share reform and its performance

☒ Applicable ☐ N/A

Name of shareholder	Undertaking	Performance of undertaking
Zhongxingxin	For details of Zhongxingxin's undertaking, please refer to Section 4.2.2	Under normal performance

7.6.2 There were no other undertakings by the Company and shareholders with holdings of more than 5%.

7.7 Material litigation or arbitration

☐ Applicable ☒ N/A

During the year, the Group had no material litigation or arbitration. Please refer to Section headed "Material Matters" set out in 2007 annual report of the Company for details of the progress during the year of non-material litigation and arbitration occurring prior to the year and non-material litigation and arbitration occurring during the year.

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

7.8.1 Investment in securities

☐ Applicable ☒ N/A

7.8.2 Equity interests in other listed companies

☐ Applicable ☒ N/A

7.8.3 Equity interests in non-listed financial enterprises

☐ Applicable ☒ N/A

7.8.4 Dealings in shares of other listed companies

☒ Applicable ☐ N/A

Dealings	Name of stock	Number of shares held at the beginning of the period	Number of shares bought/sold during the reporting period	Number of shares held at the end of the period	Amounts invested	Investment gains
Bought	China Life Insurance	0	79,000	0	RMB1,490,000	—
	Gem-year Industrial	0	45,000	0	RMB190,000	—
	Industrial Bank	0	22,000	0	RMB350,000	—
Sold	China Communications Services ¹	7,374,000	7,374,000	0	HK\$16,220,000	HK\$4,970,000
	China Life Insurance ²	0	79,000	0	—	RMB1,600,000
	Gem-year Industrial ²	0	45,000	0	—	RMB190,000
	Industrial Bank ²	0	22,000	0	—	RMB170,000

Note 1: ZTE (H.K.) Limited (“ZTE HK”), a wholly-owned subsidiary of the Company subscribed for 17,674,000 H shares in China Communications Services Company Limited (“China Communications Services”, stock code: 0552) under China Communications Services’s global offering of H shares for listing on the main board of the Stock Exchange of Hong Kong at a price of HK\$2.20 per share for a total subscription amount of HK\$38,880,000 (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee). The number of shares subscribed accounted for approximately 0.32% of the issued share capital of China Communications Services.

ZTE HK disposed of all the H shares in China Communications Services held at the end of January 2007 and recorded a net gain of approximately HK\$44,510,000. Gains realised for the reporting period amounted to HK\$4,970,000.

Note 2: During the reporting period, majority-owned subsidiary 南京中兴軟創科技有限責任公司 subscribed for new shares in an IPO, which were subsequently disposed of in full to realise an investment gain of RMB1,960,000. As at the end of the reporting period, 南京中兴軟創科技有限責任公司 did not hold any equity interests in any listed companies.

8. REPORT OF THE SUPERVISORY COMMITTEE

8.1 Supervisory committee meetings

The Supervisory Committee held seven meetings in 2007, details of which are as follows:

1. The twelfth meeting of the third session of the Supervisory Committee of the Company was held on 26 January 2007. The Supervisory Committee considered and approved the “Summary Report on the Work of the Third Session of the Supervisory Committee”, “Resolution on the Re-election of the Supervisory Committee and Nomination of Candidates for the Shareholders’ Representative Supervisors” and “Resolution on the Adjustment of Directors’ Allowances”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 29 January 2007.
2. The first meeting of the fourth session of the Supervisory Committee of the Company was held on 30 March 2007. The Supervisory Committee considered and approved the “Resolution on the Election of the Chairman of the Fourth Session of the Supervisory Committee”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 2 April 2007.
3. The second meeting of the fourth session of the Supervisory Committee of the Company was held on 18 April 2007. The Supervisory Committee considered and approved the “2006 report on the work of the Supervisory Committee”, “Full Text and Summary of the 2006 Annual Report and the Results Announcement of the Company”, “the Final Financial Accounts of the Company for 2006”, “Profit Distribution Plan of the Company for 2006”, “Resolutions with respect to the Proposed Application by the Company for Composite Credit Facilities for 2007”, “Resolutions regarding Connected Transactions of the Company in connection with the Lease of Properties”, “Resolution on Determining the Audit Fees of the PRC Auditors and the Hong Kong Auditors of the Company for 2006”, “Resolution on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for 2007” and “Resolution on the Implementation of New Enterprise Accounting Standards by the Company”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 19 April 2007.
4. The third meeting of the fourth session of the Supervisory Committee of the Company was held on 16 August 2007. The Supervisory Committee considered and approved the “Full Text and Summary of the 2007 Interim Report and the Results Announcement of the Company”, “2007 Interim Financial Analysis Report”, “Resolutions of the Company with respect to the Supplementary Application for Composite Credit Facilities”, “Resolution of the Company on the Provision of Guarantee for Subsidiary Congo-Chine Telecom S.A.R.L.”, “Resolution of the Company on the Proposals for the Offering and Issue of the Bonds cum Warrants”, “Resolution of the Company on the Feasibility of Investment Projects to be funded by the proceeds from the Offer” and “Resolution of Report of the Board on the Use of the Proceeds Raised

in the Previous Fund Raising Exercise”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 17 August 2007.

5. The fourth meeting of the fourth session of the Supervisory Committee of the Company was held on 26 September 2007. The Supervisory Committee considered and approved the “Resolution of the Company for the Continued Purchase of Liability Insurance for Directors, Supervisors and Senior Management” and “Resolution of the Company for the Proposed Supplementary Agreement to Purchase Framework Agreement for 2007 Between Subsidiary ZTE Kangxun Telecom Company, Limited and Connected Party Mobi Antenna Technologies (Shenzhen) Co., Ltd. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 27 September 2007.
6. The fifth meeting of the fourth session of the Supervisory Committee of the Company was held on 25 October 2007. The Supervisory Committee considered and approved the “2007 Third Quarterly Report of the Company”, “Resolution on the Formation of Joint Venture Company 中興能源(北京)有限責任公司 ([Zhongxing Energy Limited])”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 26 October 2007.
7. The sixth meeting of the fourth session of the Supervisory Committee of the Company was held on 25 December 2007. The Supervisory Committee considered and approved the “Resolution of the Company on the Provision of Guarantee in respect of Bank Credit Facilities Granted to Wholly-owned Subsidiary ZTE (H.K.) Limited”. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 26 December 2007.

8.2 The supervisory committee has furnished its opinion on the company’s condition in 2007 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 Shareholders’ General Meetings, the Rules of Procedure for Board of Directors’ Meetings and the Rules of Procedure for Supervisory Committee Meetings, 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 diligently have performed their duties, abided by the laws and carefully executed all resolutions of the shareholders' general meetings and meetings of the Board of Directors. They have not violated any laws, regulations and the Articles of Association in exercising 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 2007 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 2007 annual report of the Company are in compliance with various requirements of regulatory authorities including the China Securities Regulatory Commission, Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited. The 2007 financial report of the Company gives a true and accurate view of the financial position, and operating results of the Company for the year 2007.
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 entered into by the Company and its related parties have been conducted on an arm's length basis without infringing the interests of the Company and its shareholders.

9. CORPORATION GOVERNANCE REPORT

The Group complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Stock Exchange Listing Rules throughout 2007.

The Directors of the Company confirm that the Company has adopted code provisions relating to the dealing in the Company's shares by Directors contained in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. After making specific enquiry with the Directors and Supervisors, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with provisions of the Model Code during 2007.

10. FINANCIAL REPORTS

- 10.1 The Audit Committee of the Company has reviewed, in association with the management, the accounting principles and standards adopted by the Group, and has investigated issues relating to auditing, internal control and financial reporting, including the review of the consolidated and company balance sheets at 31 December 2007 and the consolidated and company income statement and cash flow statements for the year ended 31 December 2007 prepared by the Group in accordance with PRC GAAP and with HKFRSs.

10.2 Audit Opinion

The consolidated and company balance sheets as at 31 December 2007, the consolidated and company income statements and cash flow statements for the year ended 31 December 2007 prepared by the Group in accordance with PRC GAAP have been audited by Ernst & Young Hua Ming, who has issued a standard auditors' report without any qualified opinion (Ernst & Young Hua Ming (2008) SHENZI NO. 60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2007 prepared by the Group in accordance with HKFRSs.

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

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

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

10.4 Changes in accounting policies, accounting estimates and auditing methods compared to the 2006 annual report

☒ Applicable ☐ N/A

The Group has adopted the new PRC enterprise accounting standards starting from 2007. Please refer to Appendix I for details of the changes in accounting policies.

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

☐ Applicable ☒ N/A

10.6 Changes in the scope of consolidation compared to the 2006 annual report are set out in the following table:

Name of Company	Change	Reason
深圳市中聯成電子發展有限公司	Addition	New incorporation
深圳市興意達通訊技術有限公司	Addition	New incorporation
南京中興軟創軟件技術有限公司	Addition	New incorporation
深圳萬譽電子技術有限公司	Addition	New incorporation
合肥中興電子科技有限責任公司	Addition	New incorporation
南京中興特種設備有限責任公司	Addition	New incorporation
天津中興軟件有限責任公司	Addition	New incorporation
洪湖市洪湖浪米業有限責任公司	Addition	New incorporation
洪湖市中興置業有限公司	Addition	New incorporation
LiveCom Limited	Addition	New incorporation
ZTE PHILIPPINES INC.	Addition	New incorporation
ZTE ITALY S.R.L.	Addition	New incorporation
ZHONGXING CORPORATION, S.L.	Addition	New incorporation
ZTE (H.K) Ethiopia LTD.	Addition	New incorporation
ZTE Telecom SOUTH AFRICA	Addition	New incorporation
ZTE DE VENEZUELA, C.A.	Addition	New incorporation
ZTE HK (Cambodia) Co., Ltd	Addition	New incorporation
EURL ZTE ALGERIE	Addition	New incorporation
ZTE PARSIAN CO.	Addition	New incorporation
ZTE Afghanistan LTD.	Addition	New incorporation
ZTE Corporation Bangladesh Ltd.	Addition	New incorporation
ZTE HELLAS TELE- COMMUNICATIONS S.A.	Addition	New incorporation
Anhui Wantong Tower Installation Company, Limited	Reduction	Deregistration
Anhui Wantong Information System Integration Company, Limited	Reduction	Deregistration

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
20 March, 2008

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Yin Yimin, Shi Lirong and He Shiyong; six non-executive directors, Hou Weigui, Wang Zongyin, Xie Weiliang, Zhang Junchao, Li Juping and Dong Lianbo; and five independent non-executive directors, Zhu Wuxiang, Chen Shaohua, Qiao Wenjun, Mi Zhengkun and Li Jin.

APPENDIX I: ACCOUNTING STATEMENTS PREPARED IN ACCORDANCE WITH PRC GAAP

CONSOLIDATED BALANCE SHEET

Currency: RMB'000

Assets	2007.12.31		2006.12.31	
	Group	Company	Group	Company
Current assets				
Cash in banks and on hands	6,483,170	4,640,149	4,311,060	2,957,920
Derivative financial assets	123,644	123,644	33,288	—
Notes receivables	1,656,258	1,599,250	1,658,406	1,617,133
Trade receivables	7,098,949	8,945,606	5,329,628	5,753,208
Factored trade receivables	153,668	278,668	152,848	275,830
Accounts prepaid	311,362	85,165	51,757	20,619
Dividend receivables	—	184,589	—	817,631
Other receivables	689,889	1,489,362	441,039	1,220,099
Inventories	5,363,430	1,443,814	2,481,155	1,179,105
Amount due from customers for contract work	8,606,291	8,216,361	5,833,480	5,809,647
Total current assets	30,486,661	27,006,608	20,292,661	19,651,192
Non-current assets				
Available-for-sale investments	43,464	41,464	43,488	41,488
Long-term trade receivables	581,007	401,715	372,703	328,166
Factored long-term trade receivables	3,142,709	3,142,709	1,399,206	1,394,970
Long-term equity investments	137,019	547,970	57,193	472,904
Fixed assets	3,038,063	1,878,330	2,591,858	1,611,968
Construction in progress	931,090	817,787	469,636	402,430
Intangible assets	224,848	78,398	152,859	78,456
Development expenditure	258,991	127,624	129,751	129,751
Deferred tax assets	295,750	256,407	210,923	194,547
Long-term deferred assets	33,494	—	40,415	—
Total non-current assets	8,686,435	7,292,404	5,468,032	4,654,680
Total assets	39,173,096	34,299,012	25,760,693	24,305,872

Liabilities and owner's equity	2007.12.31		2006.12.31	
	Group	Company	Group (Restated)	Company (Restated)
Current liabilities				
Short-term loans	2,893,855	2,535,673	945,726	741,827
Bank advances on factored trade receivables	153,668	278,668	152,848	275,830
Derivative financial liabilities	7,876	—	—	—
Notes payable	3,946,429	3,818,010	2,242,566	2,187,595
Trade payables	7,856,240	8,616,400	4,749,099	6,704,326
Amount due to customers for contract work	1,597,314	472,653	996,275	991,612
Advances from customers	1,491,219	1,502,276	635,875	513,952
Payroll and welfare payable	1,241,839	551,215	1,058,804	727,981
Taxes payable	(1,342,330)	(1,056,962)	(690,767)	(615,741)
Dividend payable	41,180	500	83,941	378
Other payables and accruals	1,314,057	2,643,437	708,188	701,726
Deferred income	101,695	21,695	66,274	14,404
Provision	126,042	78,463	291,832	243,417
Long-term loans due within 1 year	1,509,569	1,509,569	—	—
Total current liabilities	20,938,653	20,971,597	11,240,661	12,487,307
Non-current liabilities				
Long-term loans	2,085,229	911,322	1,679,242	1,329,478
Bank advances on factored long-term trade receivables	3,142,709	3,142,709	1,399,206	1,394,970
Financial guarantee contract	3,689	3,689	3,689	3,689
Accrued retirement benefits	34,408	34,408	32,058	32,058
Specific payables	80,000	80,000	80,000	80,000
Total non-current liabilities	5,346,035	4,172,128	3,194,195	2,840,195
Total liabilities	26,284,688	25,143,725	14,434,856	15,327,502
Owner's equity:				
Share capital	959,522	959,522	959,522	959,522
Capital reserve	5,807,332	5,772,061	5,509,664	5,474,393
Surplus reserves	1,364,758	769,603	1,331,059	769,603
Retained profit	3,831,231	1,417,872	2,852,652	1,632,417
Proposed final dividend	239,880	239,880	143,928	143,928
Exchange fluctuation reserve	(65,562)	(3,651)	(32,880)	(1,493)
Equity attributable to equity holders of the parent	12,137,161	9,155,287	10,763,945	8,978,370
Minority interests	751,247	—	561,892	—
Total owner's equity	12,888,408	9,155,287	11,325,837	8,978,370
Total liabilities and owner's equity	39,173,096	34,299,012	25,760,693	24,305,872

Legal Person Representative
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance division
Shi Chunmao

CONSOLIDATED INCOME STATEMENT

Currency: RMB'000

	2007	2006		
	Group	Company	Group	Company
			(Restated)	(Restated)
Revenue	34,777,181	32,799,255	23,214,580	21,903,730
Less: Cost of sales	23,004,541	27,598,911	15,273,126	18,838,291
Taxes and surcharges	280,266	41,396	111,360	44,080
Selling and distribution costs	4,395,125	3,678,450	3,140,108	2,291,774
Administrative expenses	1,777,554	1,165,704	1,244,683	1,176,478
Research and development costs	3,210,433	1,066,595	2,832,686	828,968
Finance costs	494,371	683,100	239,617	285,112
Assets impairment losses	789,140	669,501	23,317	16,684
Add: Fair value gains	115,566	123,644	16,595	—
Investment income	59,437	2,050,189	31,849	2,346,986
Including: Share of profits and losses of Jointly-controlled entities and Associates	24,267	5,268	7,523	2,780
Operating profit	1,000,754	69,431	398,127	769,329
Add: Non-operating income	906,133	127,117	658,715	76,778
Less: Non-operating expenses	179,153	64,481	26,152	13,095
Including: Losses on disposal of non- current assets	23,927	11,508	14,885	12,236
Total profit	1,727,734	132,067	1,030,690	833,012
Less: Income tax	276,283	106,732	127,078	1,706
Net profit	1,451,451	25,335	903,612	831,306
Attributable to: Equity holders of the parent	1,252,158	25,335	766,972	831,306
Minority interests	199,293	—	136,640	—
Earnings per share attributable to ordinary equity holders of the parent				
Basic	RMB1.30	RMB0.03	RMB0.80	RMB0.87
Diluted	RMB1.29	RMB0.03	RMB0.80	RMB0.87

Legal Person Representative
Hou Weigui

Chief Financial Officer:
Wei Zaisheng

Head of Finance division
Shi Chunmao

CONSOLIDATED CASH FLOW STATEMENT

	2007.1-12		2006.1-12	
	Group	Company	Group (Restated)	Company (Restated)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering services	34,078,133	29,194,282	21,600,437	20,378,716
Cash received from taxes returned	2,649,273	1,986,659	1,404,449	810,891
Cash received relating to other operating activities	199,881	158,803	131,464	91,495
Sub-total of cash inflow	36,927,287	31,339,744	23,136,350	21,281,102
Cash paid for goods and services	24,683,459	26,772,364	17,685,647	19,211,544
Cash paid to and on behalf of employees	4,778,567	1,884,394	3,514,280	1,503,266
Payments of taxes and levies	1,729,913	132,293	1,265,754	161,113
Cash paid relating to other operating activities	5,646,958	2,538,701	2,218,753	2,134,330
Sub-total of cash outflow	36,838,897	31,327,752	24,684,434	23,010,253
Net cash flows from operating activities	88,390	11,992	(1,548,084)	(1,729,151)
2. Cash flows from investing activities				
Cash received from sale of investments	26,803	10,146	22,766	9,430
Cash received from gains of investment	34,479	29,534	23,265	9,196
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	18,295	—	20,851	3,942
Sub-total of cash inflow	79,577	39,680	66,882	22,568
Cash paid to acquire fixed asset, intangible assets and other long-term assets	1,777,223	1,276,510	1,181,162	778,177
Cash paid for acquisition of equity investments	60,000	65,151	49,283	6,340
Sub-total of cash outflow	1,837,223	1,341,661	1,230,445	784,517
Net cash flow from investing activities	(1,757,646)	(1,301,981)	(1,163,563)	(761,949)

	2007.1-12 Group	Company	2006.1-12 Group (Restated)	Company (Restated)
3. Cash flows from financing activities				
Cash received from investment	503,138	485,932	30,366	—
Cash received relating to other financing activities	17,207	—	30,366	—
Cash received from borrowings	6,981,386	5,853,557	3,093,148	2,626,523
Sub-total of cash inflow	<u>7,484,524</u>	<u>6,339,489</u>	<u>3,123,514</u>	<u>2,626,523</u>
Cash paid for debt repayments	3,117,701	2,968,298	1,147,875	1,055,218
Cash payments for distribution of dividends and interest expenses	538,488	390,798	509,886	363,718
Cash paid relating to other financing activities	66,259	—	116,312	—
Sub-total of cash outflow	<u>3,656,189</u>	<u>3,359,096</u>	<u>1,657,761</u>	<u>1,418,936</u>
Net cash flow from financing activities	<u>3,828,335</u>	<u>2,980,393</u>	<u>1,465,753</u>	<u>1,207,587</u>
4. Effect of foreign exchange rate changes on cash	<u>8,607</u>	<u>(8,758)</u>	<u>(9,276)</u>	<u>(6,578)</u>
5. Net increase (decrease) in cash and cash equivalents	<u>2,167,686</u>	<u>1,681,646</u>	<u>(1,255,170)</u>	<u>(1,290,091)</u>
Add: cash and cash equivalents at beginning of year	<u>4,142,063</u>	<u>2,922,719</u>	<u>5,397,233</u>	<u>4,212,810</u>
6. Net balance of cash and cash equivalents	<u>6,309,749</u>	<u>4,604,365</u>	<u>4,142,063</u>	<u>2,922,719</u>
<i>Legal Person Representative</i> Hou Weigui	<i>Chief Financial Officer:</i> Wei Zaisheng	<i>Head of Finance division</i> Shi Chunmao		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2007

		2007							
		Attributable to equity holders of the parent						Minority interests	Total equity
		Issued capital	Capital reserve	Surplus reserves	Retained profit	Proposed final dividend	Exchange fluctuation reserve		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I.	At 31 December 2006	959,522	5,509,664	1,331,059	2,767,616	143,928	(32,880)	10,678,909	561,892
	Add: Difference on the first adoption of new PRC GAAP	—	—	—	85,036	—	—	85,036	—
II.	At 1 January 2007	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,880)	10,763,945	561,892
III.	Changes in current year								
(1)	Net profit	—	—	—	1,252,158	—	—	1,252,158	199,293
(2)	Gains/(losses) recognized directly in equity	—	—	—	—	—	(32,682)	(32,682)	(3,647)
	Sub-total of (1) and (2)	—	—	—	1,252,158	—	(32,682)	1,219,476	195,646
(3)	Changes of paid-in capital								
1.	Capital contributions	—	—	—	—	—	—	—	17,207
2.	Equity settled share expense	—	297,668	—	—	—	—	297,668	—
(4)	Profit appropriation								
1.	Appropriation to surplus reserves	—	—	—	33,699	(33,699)	—	—	—
2.	2006 final dividend declared	—	—	—	—	(143,928)	—	(143,928)	(23,498)
3.	2007 Proposed final dividend	—	—	—	(239,880)	239,880	—	—	(167,426)
(5)	Transfer of shareholders' equity	—	—	—	—	—	—	—	—
IV.	At 31 December 2007	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247
		2006 (Restated)							
		Attributable to equity holders of the parent						Minority interests	Total equity
		Issued capital	Capital reserve	Surplus reserves	Retained profit	Proposed final dividend	Exchange differences		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
I.	At 31 December 2005	959,522	5,506,424	1,264,060	2,171,190	239,880	(15,981)	10,125,095	470,729
	Add: Difference on the first adoption of new PRC GAAP	—	—	—	125,417	—	—	125,417	—
II.	At 1 January 2006	959,522	5,506,424	1,264,060	2,296,607	239,880	(15,981)	10,250,512	470,729
III.	Changes in current year								
(1)	Net profit	—	—	—	766,972	—	—	766,972	136,640
(2)	Gains/(losses) recognized directly in equity								
1.	Effect of changes of other equity holders' interest in invested entities by equity method	—	760	—	—	—	—	760	—
2.	Others	—	—	—	—	—	(16,899)	(16,899)	(7,429)
	Sub-total of (1) and (2)	—	760	—	766,972	—	(16,899)	750,833	129,211
(3)	Changes of paid-in capital								
1.	Paid-in capital by shareholders	—	—	—	—	—	—	—	(803)
2.	Equity settled share expense	—	2,480	—	—	—	—	2,480	—
(4)	Profit appropriation								
1.	Appropriation to surplus reserves	—	—	66,999	(66,999)	—	—	—	—
2.	2005 final dividend declared	—	—	—	—	(239,880)	—	(239,880)	(37,245)
3.	2006 Proposed final dividend	—	—	—	(143,928)	143,928	—	—	—
(5)	Transfer of shareholders' equity	—	—	—	—	—	—	—	—
IV.	At 31 December 2006	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,880)	10,763,945	561,892

APPENDIX II: ACCOUNTING STATEMENTS PREPARED IN ACCORDANCE WITH HKFRSS

CONSOLIDATED INCOME STATEMENT

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2007

	<i>Notes</i>	2007 RMB'000	2006 RMB'000 (Restated)
REVENUE	5	34,777,181	23,214,580
Cost of sales		(23,415,044)	(15,365,903)
Gross profit		11,362,137	7,848,677
Other income and gains		1,028,001	724,678
Research and development costs		(3,210,433)	(2,832,685)
Selling and distribution costs		(4,531,512)	(3,274,699)
Administrative expenses		(1,718,242)	(1,097,615)
Other expenses		(898,183)	(191,495)
Finance costs	7	(328,301)	(153,694)
Share of profits and losses of:			
Jointly-controlled entities		784	(652)
Associates		23,483	8,175
PROFIT BEFORE TAX	6	1,727,734	1,030,690
Tax	8	(276,283)	(127,078)
PROFIT FOR THE YEAR		<u>1,451,451</u>	<u>903,612</u>
Attributable to:			
Equity holders of the parent		1,252,158	766,972
Minority interests		199,293	136,640
		<u>1,451,451</u>	<u>903,612</u>
DIVIDEND			
Proposed final	9	<u>239,880</u>	<u>143,928</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		<u>RMB1.30</u>	<u>RMB0.80</u>
Diluted		<u>RMB1.29</u>	<u>RMB0.80</u>

CONSOLIDATED BALANCE SHEET
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2007

	<i>Notes</i>	2007 RMB'000	2006 RMB'000 <i>(Restated)</i>
NON-CURRENT ASSETS			
Property, plant and equipment		3,954,809	3,053,019
Deposit for land premium		28,000	—
Prepaid land premiums/land lease payments		58,357	55,146
Intangible assets		443,777	274,905
Investments in jointly-controlled entities		2,255	5,936
Investments in associates		134,764	51,257
Available-for-sale investments		43,464	43,488
Long term trade receivables	11	581,007	372,703
Factored long term trade receivables		3,142,709	1,399,206
Deferred tax assets		295,750	210,923
Total non-current assets		8,684,892	5,466,583
CURRENT ASSETS			
Prepaid land premiums/land lease payments		1,543	1,449
Inventories		5,363,430	2,481,155
Amount due from customers for contract works		8,606,291	5,833,480
Trade and bills receivables	11	8,755,207	6,988,034
Factored trade receivables		153,668	152,848
Prepayments, deposits and other receivables		2,792,626	1,497,323
Loan receivable		13,466	22,026
Equity investments at fair value through profit or loss		—	33,288
Derivative financial instruments		123,644	—
Pledged bank deposits		173,421	168,997
Cash and cash equivalents		6,309,749	4,142,063
Total current assets		32,293,045	21,320,663
CURRENT LIABILITIES			
Trade and bills payables	12	11,802,669	6,991,665
Amount due to customers for contract works		1,597,314	996,275
Other payables and accruals		4,337,861	2,732,572
Interest-bearing bank borrowings		4,403,424	945,726
Bank advances on factored trade receivables		153,668	152,848
Tax payable		399,502	297,913
Derivative financial instruments		7,876	—
Dividend payables		41,180	83,941
Total current liabilities		22,743,494	12,200,940
NET CURRENT ASSETS		9,549,551	9,119,723
TOTAL ASSETS LESS CURRENT LIABILITIES		18,234,443	14,586,306

<i>Notes</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i> (<i>Restated</i>)
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>18,234,443</u>	<u>14,586,306</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	2,085,229	1,679,242
Bank advances on factored long-term trade receivables	3,142,709	1,399,206
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	34,408	32,058
Other long-term payables	<u>80,000</u>	<u>146,274</u>
Total non-current liabilities	<u>5,346,035</u>	<u>3,260,469</u>
Net assets	<u>12,888,408</u>	<u>11,325,837</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	959,522	959,522
Reserves	10,937,759	9,660,495
Proposed final dividend	<u>239,880</u>	<u>143,928</u>
	12,137,161	10,763,945
Minority interests	<u>751,247</u>	<u>561,892</u>
Total equity	<u>12,888,408</u>	<u>11,325,837</u>

Hou Weigui
Director

Yin Yimin
Director

NOTES TO FINANCIAL STATEMENTS

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2007

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 an equity investment and 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 (collectively referred to as the “Group”) for the year ended 31 December 2007. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. Acquisitions of minority interests are 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.

2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 standards and interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs changes in accounting policies are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 49 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. The interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

3 IMPACT OF 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 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ⁴
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace 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 expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised and it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group expects to adopt HKAS 1 from 1 January 2009.

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 is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. 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.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2007.

Group

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:												
Telecommunications system contracts	14,851,493	9,186,920	1,350,148	2,279,424	6,365,850	3,874,634	—	—	2,134,214	1,912,160	24,701,705	17,253,138
Sale of goods and services	—	—	—	—	—	—	7,645,126	4,519,492	2,430,350	1,441,950	10,075,476	5,961,442
Total	14,851,493	9,186,920	1,350,148	2,279,424	6,365,850	3,874,634	7,645,126	4,519,492	4,564,564	3,354,110	34,777,181	23,214,580
Segment results	4,536,398	2,604,063	397,073	593,821	1,068,583	364,028	663,065	512,429	165,506	499,637	6,830,625	4,573,978
Interest and unallocated gains											1,028,001	724,678
Unallocated expenses											(5,826,858)	(4,121,795)
Finance cost											(328,301)	(153,694)
Share of profits and losses of:												
Jointly-controlled entities											784	(652)
Associates											23,483	8,175
Profit before tax											1,727,734	1,030,690
Tax											(276,283)	(127,078)
Profit for the year											1,451,451	903,612

Group

	Wireless communications		Wireline switch and access		Optical and data communications		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Assets and liabilities	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	10,988,278	7,928,525	1,097,793	1,979,726	4,907,050	3,352,383	3,976,918	2,368,637	4,141,340	1,124,605	25,111,379	16,753,876
Investments in jointly-controlled entities	—	—	—	—	—	—	—	—	—	—	2,255	5,936
Investments in associates	—	—	—	—	—	—	—	—	—	—	134,764	51,257
Unallocated assets											15,729,539	9,976,177
Total assets											40,977,937	26,787,246
Segment liabilities	1,610,709	491,760	155,801	56,382	553,440	560,098	183,649	254,266	584,934	269,644	3,088,533	1,632,150
Unallocated liabilities											25,000,996	13,829,259
Total liabilities											28,089,529	15,461,409
Other segment information:												
Depreciation and amortisation	232,337	218,625	21,096	61,374	149,000	140,369	89,385	137,870	122,629	53,653	614,447	611,891
Capital expenditure	683,648	422,669	62,074	118,655	438,431	271,375	263,014	266,542	358,056	103,729	1,805,223	1,182,970

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments. Over 90% of the Group's assets are located in the PRC. Accordingly, no analysis of the assets and capital expenditure by geographical segment is presented.

Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:										
Telecommunications system contracts	12,460,366	9,879,161	6,677,595	3,918,344	3,431,340	2,392,356	2,132,404	1,063,277	24,701,705	17,253,138
Sale of goods and services	2,226,230	3,023,605	3,001,776	1,868,800	2,053,491	204,464	2,793,979	864,573	10,075,476	5,961,442
	14,686,596	12,902,766	9,679,371	5,787,144	5,484,831	2,596,820	4,926,383	1,927,850	34,777,181	23,214,580
Other segment information:										
Segment assets	28,752,355	24,710,761	9,653,953	1,231,856	1,271,222	653,400	1,300,407	191,229	40,977,937	26,787,246

5. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue and other income and gains is as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Revenue		
Telecommunications systems contracts	24,701,705	17,253,138
Sale of goods and services	10,075,476	5,961,442
	<u>34,777,181</u>	<u>23,214,580</u>

6. PROFIT BEFORE TAX

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Cost of inventories sold	21,662,725	14,295,410
Depreciation	511,982	510,333
Amortisation of intangible assets other than deferred development costs	50,224	49,201
Amortisation of deferred development costs	52,241	52,357
	<u>102,465</u>	<u>101,558</u>
Impairment of trade receivables	679,996	111,611
Provision for warranties	61,793	114,724
Write-down of inventories to net realisable value	75,098	52,781
Minimum lease payments under operating leases on land and buildings	388,131	206,054
Contingent rent receivable in respect of an operating lease	(24,075)	(27,813)
Auditors' remuneration	6,410	6,080
Staff costs (including directors' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfares	4,671,714	3,103,539
Equity settled share expense	297,668	2,480
Pension scheme contributions:		
Defined benefits pension scheme	3,087	2,787
Defined contribution pension scheme	217,942	208,596
	<u>5,190,411</u>	<u>3,317,402</u>
Foreign exchange differences, net	62,567	29,422
Loss on disposal of items of property, plant and equipment	20,405	13,933
Loss on disposal of intangible assets	3,522	952
Recognition of financial guarantee contract	<u>—</u>	<u>3,689</u>

7. FINANCE COSTS

	Group 2007 RMB'000	2006 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	213,925	58,817
Finance costs on trade receivables factored and bills discounted	<u>114,376</u>	<u>94,877</u>
	<u><u>328,301</u></u>	<u><u>153,694</u></u>

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 RMB'000	2006 <i>RMB'000</i>
Group:		
Current — Hong Kong	3,205	6,951
Current — Mainland China	135,778	106,449
Current — Overseas	222,127	165,014
Deferred tax credited	<u>(84,827)</u>	<u>(151,336)</u>
Total tax charge for the year	<u><u>276,283</u></u>	<u><u>127,078</u></u>

Under the relevant PRC income tax law, except for certain preferential treatments available to the Company and its subsidiaries, the Group's entities established in the PRC are subject to corporate income tax at a rate of 33% on their taxable income.

The Company and its subsidiaries that are registered and operating in the Shenzhen Special Economic Zone of the PRC are entitled to a preferential income tax rate of 15%.

9. DIVIDEND

	2007 RMB'000	2006 <i>RMB'000</i>
Proposed final — RMB0.25 (2006: RMB0.15) per ordinary share	<u><u>239,880</u></u>	<u><u>143,928</u></u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB1,252,158,000 (2006: RMB766,972,000) and the weighted average number of 959,521,650 (2006: 959,521,650) ordinary shares in 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 of RMB1,252,158,000 (2006: RMB766,972,000) and the weighted average number of 959,521,650 (2006: 959,521,650) shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of 9,596,000 shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential shares into shares.

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

Progress payment for telecommunications systems 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 two years depending on customers' credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2007	2006
	RMB'000	RMB'000
Within 6 months	8,153,438	6,242,121
7 to 12 months	954,568	650,526
1 to 2 years	221,696	448,583
2 to 3 years	6,512	13,124
Over 3 years	—	6,383
	9,336,214	7,360,737
Current portion of trade and bills receivables	(8,755,207)	(6,988,034)
Long-term portion	581,007	372,703

12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group 2007 RMB'000	2006 RMB'000
Within 6 months	11,564,337	6,816,521
7 to 12 months	167,747	81,489
1 to 2 years	30,528	47,855
2 to 3 years	12,151	14,612
Over 3 years	27,906	31,188
	<u>11,802,669</u>	<u>6,991,665</u>

13. POST BALANCE SHEET EVENT

- (i) On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds with warrants are listed on the Shenzhen Stock Exchange. The bonds with warrants are guaranteed by China Development Bank, and have a 5-year life from the date of issuance. The subscribers of each bond have been entitled to receive 1.63 warrants at nil consideration, which in aggregate, 65,200,000 warrants have been issued. The warrants have a life of 24 months from the date of listing and every two warrants can be converted into 1 A share at a original conversion price of RMB78.13. The holders of the warrants are entitled to exercise the warrants 10 trading days prior to the 24th month of the listing of the warrants (“Exercise Period”). The bonds with warrants are interest bearing at a rate of 0.8% per annum.
- (ii) The Board proposes to increase the registered capital of the Company by capitalising the capital reserve fund of the Company, pursuant to which Bonus Shares will be allotted and issued to the Shareholders on the basis of 4 Bonus Shares for every 10 Shares held by the Shareholders on the Record Date. The registered capital of the Company will increase from RMB959,521,650 to RMB1,343,330,310 upon completion of the Bonus Issue. Based on a total of 959,521,650 Shares in issue in the Record Date, 383,808,660 Bonus Shares will be issued by the Company, of which 64,060,416 Shares are Bonus H Shares and 319,748,244 are Bonus A Shares.

The Bonus Issue and the increase in the Company’s registered capital are subject to the Shareholders’ approval at the coming Annual General Meeting.