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)

2009 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 (the "Company") confirm that the annual report summary and results announcement does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of this annual report. An annual report containing all information required to be presented in annual reports in accordance with Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited will be posted on the website of the Hong Kong Stock Exchange (http://www.hkexnews.com.hk) in due course.

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

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

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

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 2009 annual report.

2 CORPORATE PROFILE

2.1 Corporate information

Abbreviated Name of Stock	ZTE	
Stock code	000063 (A shares)	763 (H shares)
Bond code	中興債1(115003)	—
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	
Postal code	518057	
Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

2.2 Contact Persons and Correspondence

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

3 ACCOUNTING AND BUSINESS DATA HIGHLIGHTS

3.1 Major financial data of the Group prepared in accordance with PRC ASBEs

Unit: RMB in millions

	For the year ended 31 December 2009	For the year ended 31 December 2008	Year-on-year change (%)	For the year ended 31 December 2007
Total operating revenue	**60,272.6**	44,293.4	36.08%	34,777.2
Total profit	**3,324.7**	2,262.5	46.95%	1,727.7
Net profit attributable to shareholders of the listed company	**2,458.1**	1,660.2	48.06%	1,252.2
Net profit after extraordinary items attributable to shareholders of the listed company	**2,338.5**	1,548.1	51.06%	1,245.8
Net cash flow from operating activities	**3,729.3**	3,647.9	2.23%	88.4

	As at 31 December 2009	As at 31 December 2008	Year-on-year change	As at 31 December 2007
Total assets	**68,342.3**	50,865.9	34.36%	39,229.6
Owners' equity attributable to shareholders of the listed company	**16,825.3**	14,249.5	18.08%	12,137.2
Share capital	**1,831.3**	1,343.3	36.33%	959.5

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

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

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

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

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

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

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

Extraordinary items

√ Applicable ☐ N/A

Unit: RMB in millions

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

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

3.3 Major accounting information prepared in accordance with HKFRs

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

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

3.4 Differences between PRC ASBEs 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 2009 calculated in accordance with PRC ASBEs are entirely consistent with those calculated under HKFRSs.

4 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

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

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

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

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

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

4.2 Changes in shares subject to lock-up

4.2.1 Table of changes in shares subject to lock-up

Unit: shares

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Hou Weigui	380,600	—	114,179	494,779	Restricted senior management shares	Note 1
Zhao Xianming	11,250	—	330,975	342,225	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Xu Huijun	11,250	—	330,975	342,225	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Chen Jie	106,725	—	214,017	320,742	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Ni Qin	97,782	—	211,335	309,117	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Zeng Xuezhong	22,500	—	279,750	302,250	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Fan Qingfeng	15,000	—	277,500	292,500	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Wu Zengqi	15,000	—	277,500	292,500	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Pang Shengqing	11,475	—	276,443	287,918	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Yin Yimin	202,832	—	60,848	263,680	Restricted senior management shares	Note 1
Others	819,500	167,832	68,559,854	69,211,522	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
Total	**1,693,914**	**167,832**	**70,933,376**	**72,459,458**	—	—

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

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

4.3 Shareholders of the Company

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

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

Shareholdings of top ten shareholders

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

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

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

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

1. Among the Company's top ten shareholders, Xingye Trend Investment Hybrid Fund (6th) and Xingye Global Vision Stock Fund (9th) were managed by the same fund manager, Xingye Global Fund Management Limited.

2. There were no connected party relationships or concerted party relationships between Zhongxingxin and other shareholders listed above.

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

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

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

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

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

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

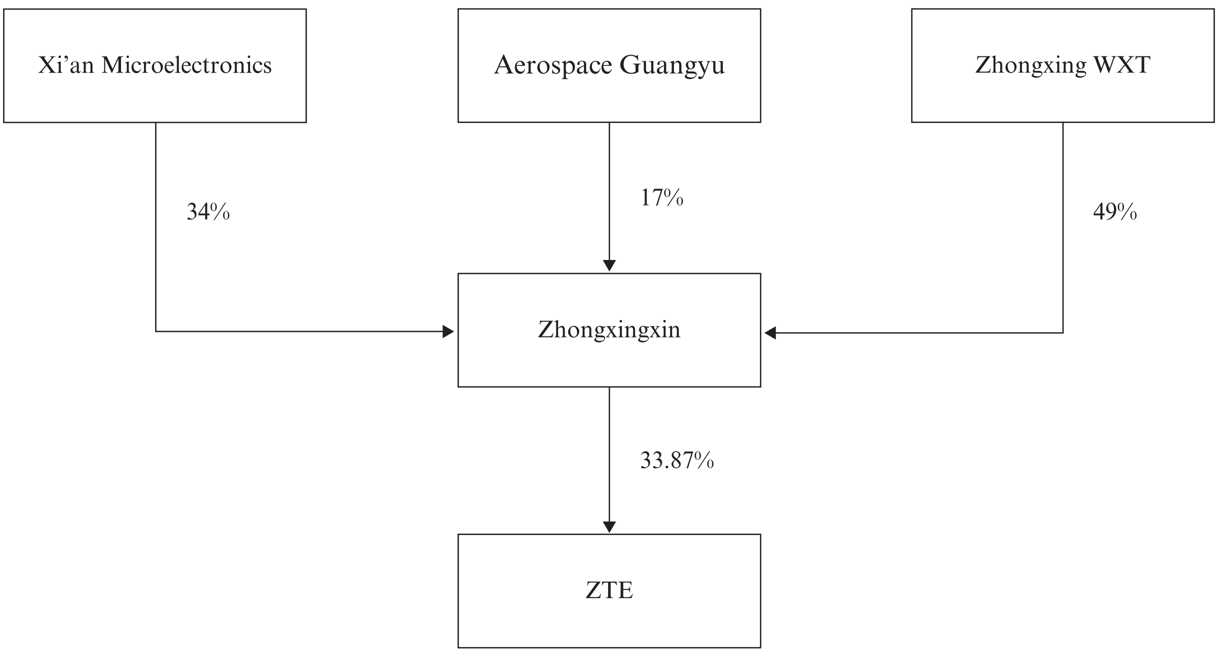
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics Technology Research Institute ("Xi'an Microelectronics"), Shenzhen Aerospace Guangyu Industrial (Group) Company ("Aerospace Guangyu") and Shenzhen Zhongxing WXT Equipment Company Limited ("Zhongxing WXT"), each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

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

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

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

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2009:



5 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in the shareholdings and annual remuneration of and share incentives granted to directors, supervisors and senior management during the reporting period

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

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

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

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

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

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

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

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

5.2 Directors' attendance at the Board meetings

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

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

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

5.3 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 2009 are set out in Section 5.1 of this report headed "(2) changes in the shareholdings and annual remuneration of directors, supervisors and senior management" in the 2008 annual report of the Company.

Save as disclosed above, as at 31 December 2009, none of the Directors, Supervisors and the President had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) that is required to be recorded in the register to be kept 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 2009, 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 Business Review for 2009

Business Review

<u>Overview of the PRC telecommunications industry in 2009</u>

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

<u>Overview of the global telecommunications industry in 2009</u>

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

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

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

Operating results of the Group for 2009

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

By market

The domestic market:

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

The international market

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

By products

Carriers' network

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

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

In the mainstream market, the Group topped the overall ranking for the PRC 3G market during the reporting period, while revenue from Europe and America was growing fast as a percentage of the Group's sales revenue from international markets. We succeeded in making major breakthroughs in the mainstream market on the back of our strengths in research and development as well as our ability in swift network delivery, winning contracts to build commercial networks in major cities around the world for mainstream carriers such as CSL, KPN and Telenor.

Terminals

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

Telecommunication software systems, services and other products

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

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

Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	60,272.6	40,623.3	32.60%	36.08%	37.74%	(0.82)
Total	**60,272.6**	**40,623.3**	**32.60%**	**36.08%**	**37.74%**	**(0.82)**
II. By product						
Carriers' networks	39,982.3	26,035.4	34.88%	38.04%	42.15%	(1.88)
Terminal	13,071.5	9,654.7	26.14%	34.86%	30.59%	2.41
Telecommunication software systems, services and other products	7,218.8	4,933.2	31.66%	28.06%	30.36%	(1.21)
Total	**60,272.6**	**40,623.3**	**32.60%**	**36.08%**	**37.74%**	**(0.82)**

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

Revenue mix	Operating revenue (RMB in millions)	Year-on-year increase/decrease in operating revenue (%)
III. By region		
The PRC	30,404.3	74.07%
Asia (excluding the PRC)	13,198.6	26.51%
Africa	6,860.6	(26.32%)
Others	9,809.1	38.49%
Total	**60,272.6**	**36.08%**

6.4 Items relating to fair value measurement

(1) Items relating to fair value measurement

Unit: RMB in thousands

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

Note 1: Financial liabilities comprised derivative financial liabilities.

6.5 Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

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

6.6 Management Discussion and Analysis (under HKFRSs)

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

Unit: RMB in millions

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

Revenue analysed by product and geographic region

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

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

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

Cost of sales and gross profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other income and gains

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

Research and development costs

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

Selling and distribution costs

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

Administrative expenses

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

Other expenses

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

Profit from operating activities

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

Finance costs

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

Tax

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

Profit attributable to minority interests

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

Other comprehensive income

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

Debt-equity ratio and the basis of calculation

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

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

Liquidity and capital resources

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

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

Cash flow data

Unit: RMB in millions

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

Operating activities

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

Investing activities

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

Financing activities

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

Capital expenditure

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

Unit: RMB in millions

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

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

Indebtedness

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

Contractual obligations

Unit: RMB in millions

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

Contingent liabilities

Unit: RMB in millions

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

Capital commitments

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

Unit: RMB in millions

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

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

Details of the subsidiaries, jointly-controlled entities and associates of the Group as at 31 December 2009 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs in the 2009 annual report of the Company.

Prospects for New Business

Details of the prospects for new business of the Group are set out in the "Chairman's Statement" in the 2009 Annual Report of the Group.

Employees

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

Charges on Assets

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

Plans for Material Investments or Acquisition of Capital Assets

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

Details of future plans for material investments or acquisition of capital assets are set out section headed "Report of the Board of Directors" in the 2009 Annual Report of the Group.

Market Risks

For details of the Group's exposure to interest rate risks and foreign exchange risks, please refer to the section 6.13.2 hereof.

6.7 Use of Proceeds

√ Applicable ☐ N/A

6.7.1 Use of issue proceeds from the Bonds cum Warrants of the Group

The Company issued 40 million bonds cum warrants with a value of RMB4 billion ("Bonds cum Warrants") on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with China Development Bank, Shenzhen Branch (account number: 44 301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA on 5 February 2008. The Company utilised RMB81,443,500 of the issue proceeds in the reporting year and proceeds from the issue of Bonds Warrants had been fully utilized, with a total utilization of of RMB3,961,143,500 on an accumulative basis. A verification report on the deposit and application in 2008 of proceeds from the issue of bonds cum warrants of the Company has been furnished by 廣東立信大華會計師事務所 (Guangdong Lixin Dahua Certified Public Accountants). An examination opinion has been furnished by Guotai Jun'an Securities Co., Ltd., the sponsor of the Company's bonds cum warrants. For details please refer to the full text of the report "Verification Report on the Deposit and Application in 2009 of proceeds from the issue of bonds cum warrants of ZTE Corporation" simultaneously published with this report.

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

Unit: RMB in ten thousands

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

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

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

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

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

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

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

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

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

Industrialisation of TD upgrade technology

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

Construction of innovative handset platform

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

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

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

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

Construction of next-generation broadband wireless mobile SDR platform

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

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

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

Research, development and production of integrated network management system

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

Industrialisation of xPON optical access

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

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

Industrialisation of next generation optical network transmission equipment

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

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

Construction of ICT integrated business platform

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

Industrialisation of RFID systems integration

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

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

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

6.8 Investments using funds other than issue proceeds

☐ Applicable √ N/A

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

□ Applicable √ N/A

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

□ Applicable √ N/A

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

√ Applicable □ N/A

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

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

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

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

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

In order to qualify for the final dividend and the bonus shares created from the capitalisation of capital reserves, H shareholders should lodge their transfer documents together with relevant share certificates with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 3 May 2010.

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

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

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

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

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

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

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

□ Applicable √ N/A

6.12 Purchase, sale or redemption of shares

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

6.13 Business outlook and risk exposures for 2010

6.13.1 Business outlook for 2010

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

In 2010, the Group will focus on improving its capabilities in integrate solutions and strive to constantly improve the quality of networks provided to customers by enhancing its competition strategy, product planning, product delivery and market behaviour, etc.

Meanwhile, we will further increase our efficiency and pursue internationalization in greater depth, laying solid foundations for our growth into a top-rate world-class enterprise as we take advantage of the opportunities at hand.

6.13.2 *Risk exposure*

(1) Interest rate risk

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

(2) Foreign exchange risk

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

(3) Credit risk

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

(4) Country risk

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

7 MATERIAL MATTERS

7.1 Acquisition of assets

□ Applicable √ N/A

7.2 Disposal of assets

□ Applicable √ N/A

7.3 Material guarantees

√ Applicable □ N/A

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

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

Total amount guaranteed during the year	0
Total balance of amount guaranteed at the end of the year (A)	RMB70,484,600
Guarantees provided in favour of subsidiaries	
Total amount guaranteed in favour of subsidiaries during the year *(Note 3)*	USD55,146,300
Total balance of amount guaranteed in favour of subsidiaries at the end of the year (B)	USD86,551,300
Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)	
Total guaranteed amount (A + B)	RMB640,989,600
Total guaranteed amount as a percentage of net assets of the Company at the end of the year	3.81%
of which:	
Amounts of guarantees provided in favour of shareholders, effective controllers and their connected parties(C)	0
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% *(Note 4)* (D)	USD86,551,300
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above * (C + D + E)	USD 86,551,300

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

Note 2: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, ZTE is the ultimate guarantor and Benin Telecoms is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was 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: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US$40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the first extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, a US$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's banking credit facilities has been executed and the US$40 million performance guarantee agreement has been signed. The guarantee to provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has yet to be performed as the relevant agreement has yet to be signed.

It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than US$30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary million and application be made by the Company to the relevant bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding US$3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the second extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the US$30 million performance guarantee provided by the Company has been signed and US$146,300 out of the US$3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

During the Reporting Period, a USD20 million guarantee provided by the Company for ZTE HK in 2008 was released upon expiry.

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

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

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

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

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

7.4.2 *Current connected creditor's rights and debts*

☐ Applicable √ N/A

7.4.3 *Fund appropriations in 2008 and progress of repayment as at year-end*

☐ Applicable √ N/A

7.5 Entrusted fund management

☐ Applicable √ N/A

7.6 Performance of Undertakings

√ Applicable ☐ N/A

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

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 2009 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 companies proposed for listing and non-listed financial enterprises

√ Applicable ☐ N/A

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

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

7.8.4 Dealings in shares of other listed companies

☐ Applicable √ N/A

7.8.5 Other comprehensive income

	2009	2008
Difference arising from foreign currency translation	**8,644**	(181,500)
Total	**8,644**	(181,500)

8 REPORT OF THE SUPERVISORY COMMITTEE

8.1 Supervisory committee meetings

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

1. The fourteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 19 March 2009, at which the "2008 report on the work of the Supervisory Committee", "Full Text of the 2008 Annual Report of the Company", "Summary of the 2008 Annual Report and Results Announcement of the Company", "the 2008 Financial Report of the Company as Audited by the PRC and Hong Kong Auditors", "the 2008 Final Financial Accounts of the Company", "Resolution on Significant Asset Impairment Provision for 2008 by the Company", "the 2008 Self-assessment Report on Internal Control of the Company", "Report of the Company on the Application of Proceeds from the Issue of Bonds cum Warrants", "Report of the Audit Committee on the 2008 Audit of the Company Performed by the PRC and Hong Kong Auditors", "Resolution of the Company on Determining the Audit Fees of the PRC Auditors and the Hong Kong Auditors of the Company for 2008", "Report on the Proposed Profit Distribution and Capitalisation from Capital Reserve

of the Company for 2008", "Resolution of the Company on the Proposed Ongoing Connected Transaction Framework Agreement for 2009", "Resolution with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2009", "Resolution with respect to the Proposed Application by the Company to China Development Bank for US$2.5 billion Composite Credit Facilities" and the "Resolution on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for 2009" were considered and approved.

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

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

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

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

8.2 The Supervisory Committee has furnished its opinion on the Company's conditions in 2009 as follows:

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

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

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

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

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

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 2009.

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 2009.

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 2009 and the consolidated and company income statement and cash flow statements for the year ended 31 December 2009 prepared by the Group in accordance with PRC ASBEs and the consolidated statement of financial position at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2009 prepared in accordance with HKFRSs.

10.2 Audit Opinion

The consolidated and company balance sheets as at 31 December 2009, the consolidated and company income statements, statement of changes in equity and cash flow statements for the year ended 31 December 2009 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming, who has issued a standard auditors' report with unqualified opinion (Ernst & Young Hua Ming (2010) SHENZI NO. 60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company statements of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2009 prepared by the Group in accordance with HKFRSs.

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

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

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

10.4 Changes in accounting policies, accounting estimates and auditing methods compared to the 2008 annual report

□ Applicable √ N/A

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

□ Applicable √ N/A

10.6 Changes in the scope of consolidation compared to the 2008 annual report are set out in the following

During 2009, the Group deregistered subsidiary ZIMAX (Cayman) Holding Limited and established the following new subsidiaries: tier-one subsidiaries including 中興國通通訊裝備技術（北京）有限公司, Shenzhen Zhongxing ICT Co., Ltd. (深圳中興網信科技有限公司), 中興通訊（杭州）有限責任公司 and 深圳市中興和泰酒店投資管理有限公司; and tier-two subsidiaries including 南京中興力維軟件有限公司, 南京中興特種系統有限責任公司, 南京中興新軟件有限責任公司, 三亞中興軟件有限責任公司, 重慶中興軟件有限責任公司, 北京市中興百納有限責任公司, 濟南中興通訊技術有限責任公司 and 深圳市中興九歌信息技術有限公司.

Other than the newly established subsidiaries and the deregistered subsidiary, the scope of consolidation was consistent with that of the previous year.

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
8 April 2010

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

ZTE Corporation
Balance Sheet

Currency: RMB'000

Assets	2009.12.31 Consolidated (Audited)	2009.12.31 Company (Audited)	2008.12.31 Consolidated (Audited)	2008.12.31 Company (Audited)
Current assets				
Cash on hand and at bank	**14,496,808**	**10,096,875**	11,480,406	8,331,272
Bills receivable	**779,112**	**672,374**	1,578,473	1,513,358
Trade receivables	**15,319,215**	**19,557,131**	9,972,495	13,186,642
Factored trade receivables	**2,870,221**	**2,727,445**	1,658,941	1,783,941
Prepayments	**355,422**	**173,408**	355,887	18,546
Dividend receivable	**—**	**1,017,020**	—	23,848
Other receivables	**1,059,829**	**3,240,367**	757,847	1,442,177
Inventories	**9,324,800**	**4,747,278**	8,978,036	5,211,017
Amount due from customers for contract work	**11,388,496**	**10,829,088**	7,894,010	8,038,449
Total current assets	**55,593,903**	**53,060,986**	42,676,095	39,549,250
Non-current assets				
Available-for-sale financial assets	**253,760**	**244,448**	251,148	243,198
Long-term trade receivables	**383,749**	**1,347,932**	612,008	1,214,038
Factored long-term trade receivables	**2,968,629**	**3,093,629**	753,568	753,568
Long-term equity investments	**440,282**	**2,196,637**	168,433	1,747,760
Fixed assets	**4,714,533**	**3,195,746**	4,103,076	2,608,957
Construction in progress	**1,332,735**	**790,491**	817,086	402,290
Intangible assets	**613,773**	**481,171**	589,084	479,947
Development costs	**778,375**	**151,564**	476,020	137,915
Deferred tax assets	**643,918**	**382,537**	400,265	231,182
Long-term deferred assets	**10,306**	**—**	19,138	—
Other non-current assets	**608,359**	**608,359**	—	—
Total non-current assets	**12,748,419**	**12,492,514**	8,189,826	7,818,855
TOTAL ASSETS	**68,342,322**	**65,553,500**	50,865,921	47,368,105

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

ZTE Corporation
Balance Sheet (Audited) (Continued)

Currency: RMB'000

Liabilities and shareholders' equity	**2009.12.31** Consolidated (Audited)	Company (Audited)	2008.12.31 Consolidated (Audited)	Company (Audited)
Current liabilities				
Short-term loans	**4,906,503**	**3,388,734**	3,882,479	1,273,828
Bank advances on factored trade receivables	**2,870,221**	**2,727,445**	1,658,941	1,783,941
Derivative financial liabilities	**—**	**—**	12,560	12,560
Bills payable	**8,484,861**	**9,473,080**	6,318,059	6,901,568
Trade payables	**13,046,804**	**17,834,626**	9,495,946	12,582,726
Amount due to customers for contract work	**2,519,706**	**2,153,082**	2,965,582	2,408,455
Advances from customers	**2,337,628**	**2,039,175**	1,392,862	1,640,192
Salary and welfare payables	**2,398,720**	**878,705**	1,443,017	596,515
Taxes payable	**77,715**	**(307,988)**	(765,040)	(993,777)
Dividend payable	**16,966**	**75**	22,750	10
Other payables	**2,213,477**	**5,662,122**	1,553,011	4,188,152
Deferred income	**92,830**	**33,237**	64,281	31,263
Provision	**189,664**	**88,298**	170,382	100,724
Long-term loans due within one year	**1,939,965**	**1,204,846**	1,782,006	673,384
Total current liabilities	**41,095,060**	**45,175,437**	29,996,836	31,199,541
Non-current liabilities				
Long-term loans	**2,396,393**	**1,742,512**	1,292,547	1,005,039
Bank advances on factored long-term trade receivables	**2,968,629**	**3,093,629**	753,568	753,568
Bonds payable	**3,632,681**	**3,632,681**	3,514,652	3,514,652
Specific payables	**—**	**—**	80,000	80,000
Deferred tax liabilities	**3,924**	**1,143**	5,019	7,242
Other non-current liabilities	**296,769**	**296,769**	39,752	39,752
Total non-current liabilities	**9,298,396**	**8,766,734**	5,685,538	5,400,253
Total liabilities	**50,393,456**	**53,942,171**	35,682,374	36,599,794

ZTE Corporation
Balance Sheet (Audited) (Continued)

Currency: RMB'000

Liabilities and shareholders' equity	2009.12.31 Consolidated (Audited)	2009.12.31 Company (Audited)	2008.12.31 Consolidated (Audited)	2008.12.31 Company (Audited)
Shareholders' equity				
Share capital	**1,831,336**	**1,831,336**	1,343,330	1,343,330
Capital reserves	**6,749,899**	**6,745,877**	6,298,172	6,271,137
Less: Restricted shares remaining in lock-up	**447,235**	**447,235**	—	—
Surplus reserves	**1,505,203**	**842,986**	1,431,820	769,603
Retained profits	**6,853,682**	**2,100,753**	5,021,369	1,992,735
Proposed final dividend	**552,425**	**552,425**	402,999	402,999
Foreign currency translation differences	**(220,043)**	**(14,813)**	(248,146)	(11,493)
Total equity attributable to equity holders of the parent	**16,825,267**	**11,611,329**	14,249,544	10,768,311
Minority interests	**1,123,599**	**—**	934,003	—
Total shareholders' equity	**17,948,866**	**11,611,329**	15,183,547	10,768,311
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**68,342,322**	**65,553,500**	50,865,921	47,368,105

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun Mao

ZTE Corporation
Income Statement

Currency: RMB'000

Item	2009 Consolidated (Audited)	2009 Company (Audited)	2008 Consolidated (Audited)	2008 Company (Audited)
I. Operating revenue	**60,272,563**	**55,057,688**	44,293,427	40,745,196
Less: Operating costs	**40,623,339**	**45,634,129**	29,492,530	33,455,197
Taxes and surcharges	**692,933**	**80,016**	415,854	89,472
Selling and distribution costs	**7,044,382**	**5,247,526**	5,312,516	4,076,649
Administrative expenses	**2,567,928**	**1,517,716**	2,099,715	1,131,736
Research and development costs	**5,781,583**	**1,619,869**	3,994,145	885,718
Finance expenses	**784,726**	**810,802**	1,308,254	1,013,256
Impairment losses	**737,940**	**492,847**	419,358	164,869
Add: Gains/(losses) from changes in fair values	**12,560**	**12,560**	(128,328)	(136,203)
Investment income	**11,871**	**1,051,371**	122,666	1,268,859
Including: Share of profits of associates and Jointly-controlled entities	**26,002**	**12,089**	19,877	1,867
II. Operating profit	**2,064,163**	**718,714**	1,245,393	1,060,955
Add: Non-operating income	**1,391,420**	**268,136**	1,098,296	127,061
Less: Non-operating expenses	**130,841**	**47,713**	81,146	46,571
Including: Gains and loss on disposal of non-current assets	**26,744**	**10,455**	37,154	17,879
III. Total profit	**3,324,742**	**939,137**	2,262,543	1,141,445
Less: Income tax	**629,081**	**205,311**	350,608	163,583
IV. Net profit	**2,695,661**	**733,826**	1,911,935	977,862
Net profit attributable to equity holders of the parent	**2,458,121**	**733,826**	1,660,199	977,862
Minority interests	**237,540**	**—**	251,736	—
V. Earnings per share				
(1) Basic earnings per share*	**RMB1.40**	**RMB0.42**	RMB0.95	RMB0.56
(2) Diluted earnings per share**	**RMB1.35**	**RMB0.40**	RMB0.93	RMB0.55
VI. Other comprehensive income	**8,644**	**(3,320)**	(181,500)	(7,842)
VII. Comprehensive income	**2,704,305**	**730,506**	1,730,435	970,020
Including:				
Comprehensive income attributable to equity holders of the parent	**2,486,224**	**730,506**	1,477,615	970,020
Comprehensive income attributable to minority interests	**218,081**	**—**	252,820	—

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

* As a result of the implementation of the 2008 profit distribution plan, the total share capital was increased from 1,343,330,310 shares to 1,746,329,402 shares, and the basic earnings per share for 2008 was restated accordingly. Basic earnings per share for the period under review was calculated on the basis of the weighted average number of ordinary share capital, namely the total share capital at the end of the period after deduction of 69,737,523 restricted shares remaining in lock-up.

** As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 69,737,523 and 46,753,747 potentially dilutive ordinary shares, respectively, for the reporting period and 2008, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for 2008 has been restated.

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

ZTE Corporation
Cash Flow Statement

Currency: RMB'000

Item	2009 Consolidated (Audited)	2009 Company (Audited)	2008 Consolidated (Audited)	2008 Company (Audited)
I. Cash flows from operating activities				
Cash received from sale of goods or rendering services	**58,137,378**	**51,366,991**	45,008,874	39,233,345
Cash received from taxes returned	**3,204,945**	**2,099,164**	3,972,631	3,088,258
Cash received relating to other operating activities	**442,533**	**317,223**	325,759	213,248
Sub-total of cash inflow	**61,784,856**	**53,783,378**	49,307,264	42,534,851
Cash paid for goods and services	**38,252,058**	**44,383,735**	30,430,667	31,511,180
Cash paid to and on behalf of employees	**7,899,513**	**2,126,248**	6,160,806	1,523,431
Payments of taxes and levies	**3,287,551**	**168,456**	2,515,238	149,482
Cash paid relating to other operating activities	**8,616,462**	**6,113,866**	6,552,640	4,734,886
Sub-total of cash outflow	**58,055,584**	**52,792,305**	45,659,351	37,918,979
Net cash flows from operating activities	**3,729,272**	**991,073**	3,647,913	4,615,872
II. Cash flows from investing activities				
Cash received from sale of investments	**12,933**	**5,572**	15,392	—
Cash received from gains of investment	**5,210**	**53,217**	89,862	97,900
Net cash received form disposal of fixed assets, intangible assets and other long-terms assets	**1,011**	**—**	52,554	—
Sub-total of cash inflow	**19,154**	**58,789**	157,808	97,900
Cash paid to acquire fixed asset, intangible assets and other long term assets	**2,053,824**	**1,601,175**	1,911,923	1,302,964
Cash paid for investment	**266,425**	**410,925**	233,536	805,114
Sub-total of cash outflow	**2,320,249**	**2,012,100**	2,145,459	2,108,078
Net cash flow from investing activities	**(2,301,095)**	**(1,953,311)**	(1,987,651)	(2,010,178)

Item	2009 Consolidated (Audited)	2009 Company (Audited)	2008 Consolidated (Audited)	2008 Company (Audited)
III. Cash flows from financing activities				
Cash received from investment	**46,371**	**29,771**	43,342	43,342
Including: Capital injected the subsidiaries by minority interests	**22,070**	**—**	—	—
Cash received from borrowings	**9,721,064**	**7,544,169**	9,365,004	6,372,399
Cash received from the issue of Bonds cum Warrants	**—**	**—**	3,961,444	3,961,444
Sub-total of cash inflow	**9,767,435**	**7,573,940**	13,369,790	10,377,185
Cash paid for debt repayments	**7,435,235**	**4,160,328**	8,896,625	8,376,712
Cash payments for distribution of dividends and interest expenses	**1,045,009**	**945,760**	830,481	668,330
Including: Dividends and profit paid by subsidiaries to minority interests	**44,227**	**—**	68,510	—
Sub-total of cash outflow	**8,480,244**	**5,106,088**	9,727,106	9,045,042
Net cash flow from financing activities	**1,287,191**	**2,467,852**	3,642,684	1,332,143
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**16,294**	**(21,136)**	(268,535)	(218,452)
V. Net increase in cash and cash equivalents	**2,731,662**	**1,484,478**	5,034,411	3,719,385
Add: cash and cash equivalents at beginning of year	**11,344,160**	**8,323,750**	6,309,749	4,604,365
VI. Net balance of cash and cash equivalents	**14,075,822**	**9,808,228**	11,344,160	8,323,750

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

ZTE Corporation
Consolidated Statement of Changes in Equity (Audited)

Currency: RMB'000

2009

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

2008

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

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chun Mao

ZTE Corporation
Statement of Changes in Equity (Audited)

Currency: RMB'000

	2009								2008						
	Share capital	Capital reserve	Restricted shares remaining in lock-up	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Total shareholders' equity	Share capital	Capital reserve	Surplus reserve	Retained profit	Proposed final dividend	Foreign currency translation difference	Total shareholders' equity
I. Current year's opening balance	1,343,330	6,271,137	—	769,603	1,992,735	402,999	(11,493)	10,768,311	959,522	5,772,061	769,603	1,417,872	239,880	(3,651)	9,155,287
II. Change during the year															
(1) Net profit	—	—	—	—	733,826	—	—	733,826	—	—	—	977,862	—	—	977,862
(2) Other comprehensive income	—	—	—	—	—	—	(3,320)	(3,320)	—	—	—	—	—	(7,842)	(7,842)
Total comprehensive income	—	—	—	—	733,826	—	(3,320)	730,506	—	—	—	977,862	—	(7,842)	970,020
(3) Shareholder's injection and capital reduction															
1. Capital injection from shareholders *(Note 1)*	85,007	474,037	(447,235)	—	—	—	—	111,809	—	—	—	—	—	—	—
2. Equity settled share expense charged to equity *(Note 1)*	—	299,594	—	—	—	—	—	299,594	—	299,551	—	—	—	—	299,551
3. Others	—	80,000	—	—	—	—	—	80,000	—	—	—	—	—	—	—
(4) Profit appropriation															
1. Appropriation to surplus reserves	—	—	—	73,383	(73,383)	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(402,999)	—	(402,999)	—	—	—	—	(239,880)	—	(239,880)
3. Proposed final dividend	—	—	—	—	(552,425)	552,425	—	—	—	—	—	(402,999)	402,999	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity															
1. Transfer of capital reserve to share capital	402,999	(402,999)	—	—	—	—	—	—	383,808	(383,808)	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(6) Others															
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	24,108	—	—	—	—	—	24,108	—	3,123	—	—	—	—	3,123
2. Issue of Bonds cum Warrants									—	580,210	—	—	—	—	580,210
III. Current year's closing balance	1,831,336	6,745,877	(447,235)	842,986	2,100,753	552,425	(14,813)	11,611,329	1,343,330	6,271,137	769,603	1,992,735	402,999	(11,493)	10,768,311

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

Consolidated Statement of Comprehensive Income
(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2009

	Note	**2009** *RMB'000*	2008 *RMB'000*
REVENUE	5	**60,272,563**	44,293,427
Cost of sales		**(41,667,788)**	(29,911,471)
Gross profit		**18,604,775**	14,381,956
Other income and gains		**1,723,498**	1,295,715
Research and development costs		**(5,781,583)**	(3,994,145)
Selling and distribution costs		**(7,157,844)**	(5,400,967)
Administrative expenses		**(2,735,186)**	(2,190,037)
Other expenses		**(603,176)**	(1,159,682)
Finance costs	7	**(751,744)**	(690,174)
Share of profits and losses of associates		**26,002**	19,877
PROFIT BEFORE TAX	6	**3,324,742**	2,262,543
Income tax expense	8	**(629,081)**	(350,608)
PROFIT FOR THE YEAR		**2,695,661**	1,911,935
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**8,644**	(181,500)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**8,644**	(181,500)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,704,305**	1,730,435
Profit attributable to:			
Owners of the Company		**2,458,121**	1,660,199
Minority interests		**237,540**	251,736
		2,695,661	1,911,935
Total comprehensive income attributable to:			
Owners of the Company		**2,486,224**	1,477,615
Minority interests		**218,081**	252,820
		2,704,305	1,730,435
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic		**RMB1.40**	RMB0.95
Diluted		**RMB1.35**	RMB0.93

Details of dividend payable and proposed for the year are set out in Note 9 to the financial statements

Consolidated Statement of Financial Position
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2009

	Note	**2009**	2008
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**6,057,574**	4,892,515
Prepaid land lease payments		**503,771**	508,389
Intangible assets		**877,397**	592,974
Investments in a jointly-controlled entity		**2,255**	2,255
Investments in associates		**438,027**	166,178
Available-for-sale investments		**253,760**	251,148
Long-term trade receivables	11	**383,749**	612,008
Factored long-term trade receivables		**2,968,629**	753,568
Deferred tax assets		**643,918**	400,265
Pledged deposits		**608,359**	—
Total non-current assets		**12,737,439**	8,179,300
CURRENT ASSETS			
Prepaid land lease payments		**10,980**	10,527
Inventories		**9,324,800**	8,978,036
Amount due from customers for contract works		**11,388,496**	7,894,010
Trade and bills receivables	11	**16,098,327**	11,550,968
Factored trade receivables		**2,870,221**	1,658,941
Prepayments, deposits and other receivables		**2,537,793**	2,476,642
Pledged deposits		**420,986**	136,246
Cash and cash equivalents		**14,075,822**	11,344,160
Total current assets		**56,727,425**	44,049,530
CURRENT LIABILITIES			
Trade and bills payables	12	**21,531,665**	15,814,005
Amount due to customers for contract works		**2,519,706**	2,965,582
Other payables and accruals		**7,285,229**	4,661,469
Derivative financial instruments		—	12,560
Interest-bearing bank borrowings		**6,846,468**	5,664,485
Bank advances on factored trade receivables		**2,870,221**	1,658,941
Tax payable		**1,147,347**	559,953
Dividends payable		**16,966**	22,750
Total current liabilities		**42,217,602**	31,359,745
NET CURRENT ASSETS		**14,509,823**	12,689,785
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,247,262**	20,869,085

	Note	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,247,262**	20,869,085
NON-CURRENT LIABILITIES			
Bonds cum warrants		**3,632,681**	3,514,652
Interest-bearing bank borrowings		**2,396,393**	1,292,547
Deferred tax liabilities		**3,924**	5,019
Bank advances on factored long-term trade receivables		**2,968,629**	753,568
Financial guarantee contract		**3,689**	3,689
Provision for retirement benefits		**38,028**	36,063
Other long-term payables		**255,052**	80,000
Total non-current liabilities		**9,298,396**	5,685,538
Net assets		**17,948,866**	15,183,547
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**1,831,336**	1,343,330
Restricted shares subject to lock-up		**(447,235)**	—
Equity component of bonds cum warrants		**580,210**	580,210
Reserves		**14,308,531**	11,923,005
Proposed final dividends		**552,425**	402,999
		16,825,267	14,249,544
Minority interests		**1,123,599**	934,003
Total equity		**17,948,866**	15,183,547

Hou Weigui
Director

Shi Lirong
Director

1. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1(Revised)	Presentation of Financial Statements
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 Revenue — Determining whether an entity is acting as a principal or as an agent
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising On Liquidation
HK(IFRIC) — Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) — Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation

HK(IFRIC) — Int 18	Transfers of Assets from Customers (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

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

(a) Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the statement of comprehensive income in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively, the amendments have had no impact on the financial position or results of operations of the Group.

(b) Amendments to HKFRS 2 Share-based Payment — Vesting Conditions and Cancellations

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) Amendments to HKFRS 7 Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. During the year ended 31 December 2009, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3.

(d) HKFRS 8 Operating Segments

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(e) HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(f) Amendment to Appendix to HKAS 18 Revenue — Determining whether an entity is acting as a principal or as an agent

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) Borrowing Costs

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC) — Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives

The amendment to HK(IFRIC) — Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC) — Int 13 Customer Loyalty Programmes

HK(IFRIC) — Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC) — Int 15 Agreements for the Construction of Real Estate

HK(IFRIC) — Int 15 replaces HK Interpretation 3 Revenue — Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC) — Int 16 Hedges of a Net Investment in a Foreign Operation

HK(IFRIC) — Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to profit or loss as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC) — Int 18 Transfers of Assets from Customers (adopted from 1 July 2009)

HK(IFRIC) — Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first Improvements to HKFRSs which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 Financial Instruments: Disclosures: Removes the reference to "total interest income" as a component of finance costs.

- HKAS 1 Presentation of Financial Statements: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 Accounting for Government Grants and Disclosure of Government Assistance: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- HKAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
HKFRS 1 Amendments	*Limited Exception from Comparative HKFRS 7 Disclosures for First-time Adopters*[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
HK(IFRIC) — Int 14 Amendments	*Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC) — Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC) — Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
HKFRS 5 included in Improvements to HKFRSs issued in October 2008	*Amendments to* HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases[2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC) — Int 9 and HK(IFRIC) — Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

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

2 Effective for annual periods beginning on or after 1 January 2010

3 Effective for annual periods beginning on or after 1 February 2010

4 Effective for annual periods beginning on or after 1 July 2010

5 Effective for annual periods beginning on or after 1 January 2011

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

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

HKFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions in HKFRS 7 as they relate to the March 2009 amendments. In addition, the transitional provisions in IFRS 7 are amended to clarify that the disclosures required by the March 2009 amendments need not be provided for: 1) Annual or interim periods, including any statement of financial position, presented within an annual comparative period ending before 31 December 2009. 2) Any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009. As the Group is not a first-time adopter of HKFRSs, the amendments are not applicable to the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC) — Int 8 Scope of HKFRS 2 and HK(IFRIC) — Int 11 HKFRS 2 — Group and Treasury Share Transactions. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

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

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. The amendment will not have any material financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The HK(IFRIC) — Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the HK(IFRIC) — Int 14 Amendments from 1 January 2011. The amendments will not have any material financial impact on the Group.

HK(IFRIC) — Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Reporting Period and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC) — Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) HKFRS 2 Share-based Payment: Clarifies that a contribution of a business on the formation of a joint venture and combination of entities or businesses under common control is not within the scope of HKFRS 2 even though it is outside the scope of HKFRS 3.

(b) HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that (i) the disclosures required in respect of non-current assets classified as held for sale or a discontinued operation are those set out in HKFRS 5; (ii) the general requirements of HKAS 1 still apply (e.g., source of estimation uncertainty); and (iii) the disclosures in other HKFRSs are not required unless:

    (i) those HKFRSs specifically require disclosures in respect of non-current assets classified as held for sale or discontinued operations; or

    (ii) the disclosures relate to the measurement of assets or liabilities within a disposal group that are outside the scope of measurement requirements of HKFRS 5 and disclosures are not disclosed elsewhere in the financial statements.

(c) HKFRS 8 Operating Segments: Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

(d) HKAS 1 Presentation of Financial Statements: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

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

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

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

(g) HKAS 36 Impairment of Assets: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 Operating Segments before aggregation for financial reporting purposes.

(h) HKAS 38 Intangible Assets: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(i) HKAS 39 Financial Instruments: Recognition and Measurement: Clarifies that (i) a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; (ii) the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and (iii) gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

(j) HK(IFRIC) — Int 9 Reassessment of Embedded Derivatives: Clarifies that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

(k) HK(IFRIC) — Int 16 Hedges of a Net Investment in a Foreign Operation: Removes the restriction of where the hedging instrument may be held in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

4. SEGMENT INFORMATION

(1) 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 2009 and 2008.

Year ended 31 December 2009

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

Year ended 31 December 2008

	Networks *RMB'000*	Terminals *RMB'000*	Telecommunications software systems, services and other products *RMB'000*	Total *RMB'000*
Segment revenue				
Telecommunications system contracts	28,963,799	—	3,127,846	32,091,645
Sale of goods and services	—	9,692,563	2,509,219	12,201,782
	28,963,799	9,692,563	5,637,065	44,293,427
Segment results	6,888,262	1,087,853	1,004,874	8,980,989
Bank and other interest income				112,786
Dividend income and unallocated gains				1,182,929
Other unallocated expenses				(7,343,864)
Finance costs				(690,174)
Share of profits and losses of associates				19,877
Profit before tax				2,262,543
Segment assets	22,811,960	5,011,544	4,432,469	32,255,973
Investments in associates				166,178
Investments in a jointly-controlled entity				2,255
Other unallocated assets				19,804,424
Total assets				52,228,830
Segment liabilities	3,399,777	149,854	808,813	4,358,444
Unallocated liabilities				32,686,839
Total liabilities				37,045,283
Other segment information:				
Impairment losses recognised in profit or loss	274,221	91,767	53,370	419,358
Depreciation and amortisation	491,251	114,127	97,247	702,625
Capital expenditure	1,353,308	314,210	267,601	1,935,119

(2) Geographical information

(a) Revenue from external customers

	2009 *RMB'000*	2008 *RMB'000*
The PRC (place of domicile)	**30,404,275**	17,466,429
Asia (excluding the PRC)	**13,198,605**	10,432,933
Africa	**6,860,602**	9,311,123
Other countries	**9,809,081**	7,082,942
	60,272,563	44,293,427

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

(b) Non-current assets

	2009 *RMB'000*	2008 *RMB'000*
The PRC(place of domicile)	**5,352,373**	4,274,923
Asia (excluding the PRC)	**633,843**	513,702
Africa	**1,436,800**	1,192,552
Other countries	**15,726**	12,701
	7,438,742	5,993,878

5. REVENUE

	2009 *RMB'000*	2008 *RMB'000*
Revenue		
Telecommunications system contracts	**44,296,942**	32,091,645
Sale of goods	**13,073,619**	10,425,761
Sale of services	**2,902,002**	1,776,021
	60,272,563	44,293,427

6. PROFIT BEFORE TAX

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

	2009 *RMB'000*	2008 *RMB'000*
Cost of goods and services	**38,285,841**	25,305,556
Depreciation	**771,671**	587,640
Amortisation of intangible assets other than deferred development costs	**42,422**	53,584
Research and development costs:		
Deferred development costs amortised**	**100,418**	61,401
Current year expenditure	**5,781,583**	3,994,145
Less: Government grants released	**(167,034)**	(131,037)
	5,714,967	3,924,509
Loss on financial derivative instruments	**10,162**	128,328
Impairment of trade receivables*	**456,105**	472,954
Provision for warranties**	**72,896**	135,045
Write-down/(reversal) of inventories to net realisable value**	**281,835**	(53,596)
Minimum lease payments under operating leases on land and buildings	**359,287**	325,356
Contingent rent receivable in respect of an operating lease	**(43,587)**	(27,569)
Auditors' remuneration	**6,741**	6,933
Staff costs (including directors' and supervisors' remuneration in note 8):		
Wages, salaries, bonuses, allowances and welfare	**8,202,158**	5,521,487
Equity-settled share expense	**299,594**	299,551
Retirement benefit scheme contributions:		
Defined benefit pension scheme	**2,788**	2,356
Defined contribution pension scheme	**404,608**	380,136
	8,909,148	6,203,530
Foreign exchange differences, net*	**—**	495,710
Loss on disposal of items of property, plant and equipment*	**26,692**	36,918
Loss on disposal of subsidiaries*	**6,069**	—
Loss on retirement and disposal of intangible assets*	**52**	236

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**255,710**	308,578
Interest on bonds cum warrants	**150,029**	133,418
Interest expense on financial liabilities not at fair values through profit or loss	**405,739**	441,996
Other finance costs:		
Finance costs on trade receivables and bills discounted	**346,005**	248,178
	751,744	690,174

8. TAX

	2009	2008
	RMB'000	*RMB'000*
Group:		
Current — Hong Kong	**4,689**	698
Current — Mainland China	**611,029**	317,723
Current — Overseas	**258,111**	131,683
Deferred *(note 36)*	**(244,748)**	(99,496)
Total tax charge for the year	**629,081**	350,608

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. As a national-grade hi-tech enterprise in Shenzhen, the Company enjoys an enterprise income tax rate of 15% for the years from 2008 to 2010.

9. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Proposed dividends — RMB0.3 (2008: RMB0.3) per ordinary share	**552,425**	402,999

Please refer to Note 13(d) for details of the proposed final dividend for the year. The profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

Basic earnings per share amount is computed by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 1,752,691,606 (2008: 1,746,329,402) in issue, as adjusted to reflect the capitalisation issue during the year.

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

Calculations of basic and diluted earnings per share are as follows:

	2009	2008
	RMB'000	*RMB'000*
Earnings		
Net profit for the year attributable to ordinary equity holders of the Company	**2,458,121**	1,660,199

	Number of shares	
	2009	2008
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation#	**1,752,692**	1,746,329*
Shares subject to lock-up under the Share Incentive Scheme#	**69,738**	46,754*
Warrants attached to bonds##	**—**	—
Adjusted weighted average number of ordinary shares in issue	**1,822,430**	1,793,083*

\# In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis, whereby the total share capital was increased from 1,746,329,402 shares to 1,831,336,215 shares. Among the total subject shares, 69,737,523 shares are subject to lock-up under the share incentive scheme and they are excluded from the calculation of basic earnings per shares.

\## The average market price of the ordinary shares during the year is less than the exercise price of the warrants, therefore, they are not considered in the calculation of diluted earnings per share for the years ended 31 December 2009 and 2008.

* The number of ordinary shares in issue during 2008 had been adjusted to take into account the bonus issue during the year ended 31 December 2009.

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills receivables	**18,337,023**	13,865,230	**22,025,346**	16,630,122
Impairment	**(1,854,947)**	(1,702,254)	**(1,459,189)**	(1,370,103)
	16,482,076	12,162,976	**20,566,157**	15,260,019
Current portion	**(16,098,327)**	(11,550,968)	**(20,229,505)**	(14,700,000)
Long-term portion	**383,749**	612,008	**336,652**	560,019

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

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**13,957,684**	10,216,760	**12,805,496**	10,686,644
7 to 12 months	**2,096,148**	1,495,092	**3,103,233**	2,323,405
1 to 2 years	**413,242**	444,240	**2,995,713**	1,460,119
2 to 3 years	**15,002**	6,884	**968,709**	549,041
Over 3 years	**—**	—	**693,006**	240,810
	16,482,076	12,162,976	**20,566,157**	15,260,019
Current portion of trade and bills receivables	**(16,098,327)**	(11,550,968)	**(20,229,505)**	(14,700,000)
Long-term portion	**383,749**	612,008	**336,652**	560,019

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**1,702,254**	1,236,853	**1,370,103**	1,069,236
Impairment losses recognised *(note 6)*	**519,459**	478,818	**395,054**	315,829
Amount write off as uncollectible	**(303,412)**	(7,553)	**(242,851)**	(14,962)
Impairment losses reversed *(note 6)*	**(63,354)**	(5,864)	**(63,117)**	—
At 31 December	**1,854,947**	1,702,254	**1,459,189**	1,370,103

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB582,272,000 (2008: RMB808,889,000) with a carrying amount before provision of RMB582,272,000 (2008: RMB879,925,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**4,583,346**	4,816,412	**3,938,943**	5,114,829
Less than one year past due	**10,823,345**	5,866,359	**11,541,159**	6,864,336
	15,406,691	10,682,771	**15,480,102**	11,979,165

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

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

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Subsidiaries	**—**	—	**8,515,630**	6,183,968
The controlling shareholder	**—**	943	**—**	—
Associates	**12,459**	19,414	**11,609**	19,354
Related companies	**—**	54	**889**	5,488
	12,459	20,411	**8,528,128**	6,208,810

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

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		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**21,161,940**	15,682,255	**27,278,626**	19,435,358
7 to 12 months	**41,328**	76,570	**3,123**	20,361
1 to 2 years	**276,089**	22,529	**529**	545
2 to 3 years	**24,525**	8,062	**288**	620
Over 3 years	**27,783**	24,589	**25,140**	27,409
	21,531,665	15,814,005	**27,307,706**	19,484,293

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Subsidiaries	**—**	—	**17,585,804**	12,503,470
The controlling shareholder	**85,566**	129,468	**—**	—
Related companies	**54,601**	87,226	**152**	152
Associates	**75,796**	43,785	**—**	—
	215,963	260,479	**17,585,956**	12,503,622

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

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

13. POST BALANCE SHEET EVENTS

(a) On 21 January 2010, an aggregate of 58,294,800 H shares were allotted and issued by the Company at the placing price of HK$45.0 per share to no less than six placees, who and whose ultimate beneficial owners are independent third parties. The net proceeds raised from the placing amounted to approximately HK$2,596 million. Following the completion of the placing, the total number of issued shares of the Company has increased from 1,831,336,215 to 1,889,631,015, while the total number of H shares held by the public has increased from 291,474,892 to 349,769,692.

(b) The exercise period of warrants attached to bonds of the Company has expired. As at the close of trading on 12 February 2010, a total of 23,348,590 warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 warrants had not been exercised and had lapsed. Following the exercise of the warrants, the Company's total number of issued share capital has increased from 1,889,631,015 prior to the exercise to 1,911,154,456 after the exercise.

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

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

(d) Pursuant to the profit distribution proposal recommended by the Board, the Company will pay a cash dividend of RMB3 (before tax) for every 10 shares held on the basis of the total share capital of the Company as at 8 April 2010 less the number of restricted shares remaining in lock-up under the Share Incentive Scheme and the number of restricted shares that may be repurchased and cancelled in accordance with the implementation of the Share Incentive Scheme as at the A share record date for the purpose of the 2009 profit distribution (the "Record Date"), and will also issue 5 bonus shares for every 10 shares held to shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. In accordance with relevant provisions of the Share Incentive Scheme, application will be made in 2010 for the second unlocking of 35% of the Subject Shares granted, and restricted shares remaining in lock-up shall not be entitled to the cash dividend. As at 8 April 2010, 69,737,523 restricted shares remained in lock-up. The number of shares entitled to the cash dividend under the 2009 profit distribution proposal will be 1,841,416,933 shares in case the second unlocking is not completed by the Record Date, or a maximum of 1,868,214,185 shares in case the second unlocking is completed by the Record Date. The said profit distribution proposal is subject to approval by the general meeting of the Company.