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)

2008 ANNUAL REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1 IMPORTANT

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation ("ZTE" or the "Company") confirm that this annual report summary and results announcement do not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents. This annual report summary is extracted from the full text of the annual report, which is simultaneously published in the website of Shenzhen Stock Exchange (http://www.szse.com.cn), the Company's designated information disclosure website (http://www.cninfo.com.cn) and the ZTE website (http://www.zte.com.cn). For more details, investors should refer to the full text of the 2008 annual report.

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

1.3 The annual report has been considered and approved at the twenty-second meeting of the fourth session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Wang Zongyin, Vice Chairman, to vote on his behalf.

1.4 The financial reports of ZTE and its subsidiaries (the "Group") for the year ended 31 December 2008 were prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs") and Hong Kong Financial Reporting Standards ("HKFRSs"), and had been audited by Ernst & Young Hua Ming and Ernst & Young respectively, and an unqualified auditors' report has been issued by each of them.

1.5 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial reports contained in the 2008 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)	—
Warrant code	中興ZXC1(031006)	—
Place of listing	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
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	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

Items	**For the year ended 31 December 2008 (current year)**	For the year ended 31 December 2007 (previous year)	Year-on-year change	For the year ended 31 December 2006 Before adjustment	After adjustment *Note 1*
Sales revenue	**44,293.4**	34,777.2	27.36%	23,214.6	23,214.6
Total profit	**2,262.5**	1,727.7	30.95%	1,069.6	1,030.7
Net profit attributable to shareholders of the listed company	**1,660.2**	1,252.2	32.58%	807.4	767.0
Net profit after extraordinary items attributable to shareholders of the listed company	**1,548.1**	1,245.8	24.26%	753.9	713.4
Net cash flow from operating activities	**3,647.9**	88.4	4,026.58%	(1,555.0)	(1,548.1)

Items	**As at 31 December 2008 (end of current year)**	As at 31 December 2007 (end of previous year)	Year-on-year change	As at 31 December 2006 Before adjustment	After adjustment
Total assets	**50,865.9**	39,229.6 *Note 2*	29.66%	25,916.9	25,760.7
Shareholders' equity attributable to shareholders of the listed company	**14,249.5**	12,137.2	17.40%	10,678.9	10,763.9

Note 1: The adjusted figures for 2006 are comparative figures restated in compliance with presentation requirements on the first adoption of ASBEs for 2007.

Note 2: Total assets as at the end of 2007 have been restated including the separate presentation of deferred income tax assets and deferred income tax liabilities and the reclassification and adjustment of inventory and amount receivable for contract works.

3.2 Principal financial indicators prepared in accordance with PRC ASBEs

Items	**For the year ended 31 December 2008 (current year)**	For the year ended 31 December 2007 (previous year)	Year-on-year change	For the year ended 31 December 2006 Before adjustment	After adjustment
Basic earnings per share *(RMB)*	**1.24**	0.93 *Note 2*	33.33%	0.60 *Note 2*	0.57 *Note 2*
Diluted earnings per share *(RMB)*	**1.20**	0.92 *Note 2*	30.43%	0.60 *Note 2*	0.57 *Note 2*
Basic earnings per share after extraordinary items *(RMB)*	**1.15**	0.93 *Note 2*	23.66%	0.56 *Note 2*	0.53 *Note 2*
Fully diluted return on net assets (%)	**11.65**	10.32	Increase by 1.33 percentage points	7.56	7.13
Weighted average return on net assets (%)	**12.36**	10.94	Increase by 1.42 percentage points	7.76	7.30
Fully diluted return on net assets after extraordinary items (%)	**10.86**	10.26	Increase by 0.60 percentage points	7.06	6.63
Weighted average return on net assets after extraordinary items (%)	**11.52**	10.88	Increase by 0.64 percentage points	7.24	6.79
Net cash flow from operating activities per share *(RMB)*	**2.72**	0.07 *Note 2*	3,785.71%	(1.16) *Note 2*	(1.15) *Note 2*

Items	**As at 31 December 2008 (end of current year)**	As at 31 December 2007 (end of previous year)	Year-on-year change	As at 31 December 2006 Before adjustment	After adjustment
Net asset per share attributable to shareholders of the listed company *(RMB)*	**10.61**	9.04 *Note 2*	17.37%	7.95 *Note 2*	8.01 *Note 2*

Note 1: In accordance with PRC ASBEs, the amount of diluted earnings per share is arrived at by dividing the net interests attributable to the listed company by the sum of 1,343,330,310 shares (the effective total share capital of the Company) and 55% of the 67,172,000 potentially dilutive ordinary shares representing Subject Shares quota granted under the Phase I Share Incentive Scheme of the Company).

Note 2: The above figures have been restated to reflect the change of total share capital from 959,521,650 shares to 1,343,330,310 shares as a result of the implementation of the Company's profit distribution for 2007.

Extraordinary profit or loss items

√ Applicable □ N/A

Unit: RMB in millions

Extraordinary items	**Amount**
Government grants accounted for in current profit and loss *Note*	194.9
Non-operating income	18.1
Less: Gains/losses arising from the disposal of non-current assets	37.2
Non-operating expenses	43.9
Effect on income tax	19.8
Total	**112.1**

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 Financial information prepared in accordance with HKFRSs

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

Unit: RMB in millions

	For the year ended 31 December				
Results	**2008**	2007	2006	2005	2004
Revenue	**44,293.4**	34,777.2	23,214.6	21,740.7	21,261.4
Cost of sales	**(29,911.5)**	(23,415.0)	(15,365.9)	(14,101.7)	(13,813.5)
Gross profit	**14,381.9**	11,362.2	7,848.7	7,639.0	7,447.9
Other income and revenue	**1,295.7**	1,028.0	724.7	516.9	492.8
Research and development costs	**(3,994.1)**	(3,210.4)	(2,832.7)	(1,959.5)	(2,265.2)
Selling and distribution costs	**(5,401.0)**	(4,531.5)	(3,274.7)	(3,186.4)	(2,799.6)
Administrative expenses	**(2,190.0)**	(1,718.2)	(1,097.6)	(1,095.4)	(981.4)
Other expenses	**(1,159.7)**	(898.2)	(191.5)	(128.6)	(162.4)
Profit from operating activities	**2,932.8**	2,031.9	1,176.9	1,786.0	1,732.1
Finance costs	**(690.2)**	(328.3)	(153.7)	(175.9)	(140.4)
Share of profit and loss of jointly controlled entities and associates	**19.9**	24.1	7.5	(4.2)	3.1
Profit before tax	**2,262.5**	1,727.7	1,030.7	1,605.9	1,594.8
Tax	**(350.6)**	(276.2)	(127.1)	(179.9)	(115.0)
Profit before minority interests	**1,911.9**	1,451.5	903.6	1,426.0	1,479.8
Attributable to: Minority interests	**(251.7)**	(199.3)	(136.6)	(138.3)	(207.3)
Attributable to: Shareholders of parent company	**1,660.2**	1,252.2	767.0	1,287.7	1,272.5

Unit: RMB in millions

Assets and liabilities	As at 31 December **2008**	2007	2006	2005	2004
Total assets	**52,228.8**	41,034.4 Note	26,787.2	22,464.0	21,007.8
Total liabilities	**37,045.3**	28,146.0 Note	15,461.4	11,742.8	11,312.2
Minority interests	**934.0**	751.2	561.9	470.7	478.4
Shareholders' equity attributable to the parent company	**14,249.5**	12,137.2	10,763.9	10,250.5	9,217.2

Note: Total assets and total liabilities as at the end of 2007 have been restated including the separate presentation of deferred income tax assets and deferred income tax liabilities and the reclassification and adjustment of inventory and amount receivable for contract works

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

Items	**2008**	2007	2006	2005	2004
Basic earnings per share *(RMB/share)*	**1.24**	0.93 Note1	0.57 Note1	0.96 Note1	0.95 Note1
Net asset per share *(RMB/share)*	**10.61**	9.04 Note1	8.01 Note1	7.63 Note1	6.86 Note1
Return on net assets	**11.65%**	10.32%	7.13%	12.56%	13.81%

Note 1: The above figures have been restated to reflect the change of total share capital from 959,521,650 shares to 1,343,330,310 shares as a result of the implementation of the Company's profit distribution for 2007.

Note 2: 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 2008 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)

	At the beginning of the year		Increase/decrease as a result of the change (+/–)					At the end of the year	
	Number of shares	Percentage (%)	Issue of new shares	Bonus issue	Transfer from capital reserves	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to lock-up	**311,954,732**	**32.51**	**—**	**—**	**105,596,213**	**(415,857,031)**	**(310,260,818)**	**1,693,914**	**0.13**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	310,982,741	32.41	—	—	105,202,663	(416,185,404)	(310,982,741)	—	—
3. Other domestic shares	971,991	0.10	—	—	393,550	328,373	721,923	1,693,914	0.13
Comprising: Domestic legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	971,991	0.10	—	—	393,550	328,373	721,923	1,693,914[Note]	0.13
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign legal person shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
II. Shares not subject to lock-up	**647,566,918**	**67.49**	**—**	**—**	**278,212,447**	**415,857,031**	**694,069,478**	**1,341,636,396**	**99.87**
1. RMB ordinary shares	487,415,878	50.80	—	—	214,152,031	415,857,031	630,009,062	1,117,424,940	83.18
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	160,151,040	16.69	—	—	64,060,416	—	64,060,416	224,211,456	16.69
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**959,521,650**	**100**	**—**	**—**	**383,808,660**	**—**	**383,808,660**	**1,343,330,310**	**100**

Note 1: As at the end of the year, 1,635,852 shares held by domestic natural persons were senior management shares, accounting for 0.1218% of the total share capital, while 58,062 shares were held by other natural persons, accounting for 0.0043% of the total share capital.

Note: The change in the number of domestic natural person shares subject to lock-up was attributable to the partial release for A shares held by Directors, Supervisors and senior management of the Company in accordance with relevant PRC regulations during the reporting period, the implementation of the profit distribution and capitalisation from capital reserves of the Company for 2007 and the purchase of circulating A shares of the Company in the secondary market by certain Directors and senior management of the Company using private funds during 28 to 29 October 2008. Details of the change are set out in "4.2.1 Table of changes in shares subject to lock-up" under the section headed "4.2 Changes in shares subject to lock-up".

4.2 CHANGES IN SHARES SUBJECT TO LOCK-UP

4.2.1 Table of changes in shares subject to lock-up

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reasons for lock-up	Date of unlocking
Zhongxingxin	310,982,741	435,375,837	124,393,096	0	Shares subject to lock-up issued under share reform	*Note 1* and *Note 2*
Hou Weigui	164,700	0	215,900	380,600	Senior management shares subject to lock-up	
Yin Yimin	91,260	0	111,572	202,832	Senior management shares subject to lock-up	
Shi Lirong	71,820	0	43,728	115,548	Senior management shares subject to lock-up	
He Shiyou	68,255	0	42,302	110,557	Senior management shares subject to lock-up	
Zhang Taifeng	91,260	0	36,504	127,764	Senior management shares subject to lock-up	
Qu Deqian	7,515	0	3,006	10,521	Senior management shares subject to lock-up	
Wei Zaisheng	71, 820	0	52,353	124,173	Senior management shares subject to lock-up	
Xie Daxiong	33,629	0	28,452	62,081	Senior management shares subject to lock-up	
Tian Wenguo	18,225	0	911	19,136	Senior management shares subject to lock-up	
Fan Qingfeng	0	5,000	20,000	15,000	Senior management shares subject to lock-up	Unlocked in accordance with relevant PRC regulations.
Chen Jie	70,875	0	35,850	106,725	Senior management shares subject to lock-up	

Name of shareholders	Number of shares subject to lock-up at the beginning of the year	Number of shares unlocked during the year	Increase in 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
Fang Rong	31,039	0	23,666	54,705	Senior management shares subject to lock-up	
Zhao Xianming	0	3,750	15,000	11,250	Senior management shares subject to lock-up	
Pang Shengqing	0	3,825	15,300	11,475	Senior management shares subject to lock-up	
Zeng Xuezhong	0	7,500	30,000	22,500	Senior management shares subject to lock-up	
Xu Huijun	0	3,750	15,000	11,250	Senior management shares subject to lock-up	
Ye Weimin	25,353	0	17,641	42,994	Senior management shares subject to lock-up	
Ni Qin	59,130	0	38,652	97,782	Senior management shares subject to lock-up	
Wu Zengqi	0	5,000	20,000	15,000	Senior management shares subject to lock-up	
Feng Jianxiong	0	2,500	10,000	7,500	Senior management shares subject to lock-up	
Former senior management shareholders	167,110	111,048	88,459	144,521	Shares subject to lock-up held by former senior management	
Total	**311,954,732**	**435,518,210**	**125,257,392**	**1,693,914**		

Note 1: The following undertakings relating to the "Revised Share Reform Plan of ZTE Corporation" as set out in the announcement published on the designated information disclosure website on 23 November 2005 were made by Zhongxingxin, the largest shareholder of the Company:

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

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

Note 2: As at 29 December 2008, the undertakings made by Zhongxingxin in the Share Reform Plan had been fully complied with and all shares subject to lock-up were released. For details, please refer to the "Indicative Announcement on the Release of Shares Subject to Lock-up" published in China Securities Journal, Shanghai Securities News and Securities Times on 25 December 2008.

4.3 Shareholders

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

Total number of shareholders 36,324 shareholders (of which 35,989 were holders of A shares and 335 were holders of H shares)

Top ten shareholders

	Name of shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held at the end of year (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1.	Zhongxingxin	State-owned shareholders	35.52	477,088,010	0	None
2.	HKSCC Nominees Limited	Foreign shareholders	16.66	223,755,615	0	Unknown
3.	Southern Tracking Growth Stock Fund	Others	1.44	19,295,361	0	Unknown
4.	Lion Value Growth Stock Fund	Others	1.27	17,000,000	0	Unknown
5.	Hunan Nantian (Group) Co., Ltd	Others	1.19	16,004,534	0	Unknown
6.	China International Domestic Demand Dynamic Stock Fund	Others	1.13	15,140,900	0	Unknown
7.	Boshi Value Growth Fund	Others	1.12	15,000,000	0	Unknown
8.	China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	0.93	12,502,281	0	Unknown
9.	China International Fund Management Alpha Stock Fund	Others	0.91	12,181,584	0	Unknown
10.	BoCom-Schroders Select Stock Fund	Others	0.82	10,983,857	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	477,088,010	A shares
2. HKSCC Nominees Limited	223,755,615	H shares
3. Southern Tracking Growth Stock Fund	19,295,361	A shares
4. Lion Value Growth Stock Fund	17,000,000	A shares
5. Hunan Nantian (Group) Co., Ltd	16,004,534	A shares
6. China International Domestic Demand Dynamic Stock Fund	15,140,900	A shares
7. Boshi Value Growth Fund	15,000,000	A shares
8. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	12,502,281	A shares
9. China International Fund Management Alpha Stock Fund	12,181,584	A shares
10. BoCom-Schroders Select Stock Fund	10,983,857	A shares

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

1. Among the Company's top ten shareholders, China International Domestic Demand Dynamic Stock Fund (6th) and China International Fund Management Alpha Stock Fund (9th) are managed by the same fund manager, China International Fund Management Co., Ltd.

2. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up.

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

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

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

Name of shareholder	Circulating shares not subject to lock-up held at the beginning of the year	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	25,591,598	451,496,412	*Note*	477,088,010

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 2007, the release of locked-up shares held by Zhongxingxin in the Share Reform Plan as well as shareholding increase in the Company by Zhongxingxin during the reporting period. For details, please refer to the announcements headed "Announcement on Profit Distribution and Capitalisation from Capital reserves for 2007", "Announcement on Shareholding Increase in the Company by Controlling Shareholder" and "Indicative Announcement on the Release of Shares Subject to Lock-up" published in China Securities Journal, Shanghai Securities News and Securities Times on 4 July 2008, 11 October 2008 and 25 December 2008 respectively.

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")

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Registered capital:	RMB100,000,000
Scope of business:	production of programmed switchboard cabinets, telephones and related components, electronic products; import and export operations; treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems.

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

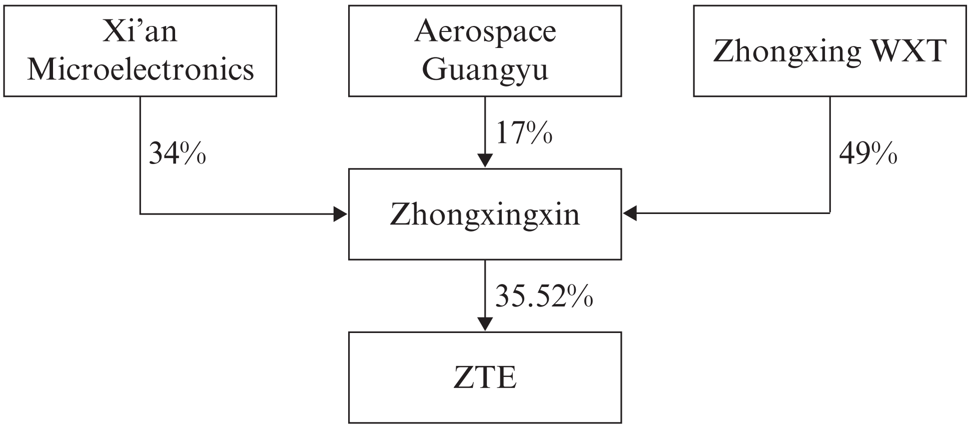
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Shenzhen Aerospace Guangyu Industrial Group Company ("Aerospace Guangyu") and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors,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

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

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

- Zhongxing WXT is a private high-technology enterprise incorporated on 23 October 1992. Its legal representative is Mr. Hou Weigui and its registered capital amounts to RMB10,000,000. The scope of business includes the development and production of telecommunications and transmission equipment, associated equipment, computer and peripheral equipment.

  The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2008:



5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

									Quota of Subject Shares granted during the reporting period (A shares)				
Name	Title	Gender	Age	Term of office	Number of A shares held at the beginning of the year (shares)	Reason of Change	Number of A shares held at the end of the year (shares)	Total pre-tax remuneration received from the Company during the reporting period (RMB10,000)	Quota of Subject Shares granted (share)	Number of shares unlocked (shares)	Grant price (cum-right basis) (RMB)	Market price of A shares at the end of the reporting period (RMB)	Whether remuneration is received from shareholder entities or other connected entities
Hou Weigui	Chairman	Male	67	3/2007–3/2010	219,600	*Notes 1 and 2*	507,466	94.9	0	0	30.05	27.20	No
Wang Zongyin	Vice Chairman	Male	64	3/2007–3/2010	0	—	0	10.0	10,000	0	30.05	27.20	Yes
Xie Weiliang	Vice Chairman	Male	53	3/2007–3/2010	0	—	0	10.0	10,000	0	30.05	27.20	Yes
Zhang Junchao	Director	Male	55	3/2007–3/2010	0	—	0	10.0	10,000	0	30.05	27.20	Yes
Li Juping	Director	Male	53	3/2007–3/2010	0	—	0	10.0	10,000	0	30.05	27.20	Yes
Dong Lianbo	Director	Male	52	3/2007–3/2010	0	—	0	10.0	10,000	0	30.05	27.20	Yes
Yin Yimin	Director and President	Male	45	3/2007–3/2010	121,680	*Notes 1 and 2*	270,442	242.7	0	0	30.05	27.20	No
Shi Lirong	Director and Executive Vice President	Male	45	3/2007–3/2010	95,760	*Notes 1 and 2*	154,064	85.1	0	0	30.05	27.20	No
He Shiyou	Director and Executive Vice President	Male	42	3/2007–3/2010	91,007	*Notes 1 and 2*	147,410	115..9	0	0	30.05	27.20	No
Zhu Wuxiang	Independent Director	Male	43	3/2007–3/2010	0	—	0	10.0	0	0	30.05	27.20	No
Chen Shaohua	Independent Director	Male	47	3/2007–3/2010	0	—	0	10.0	0	0	30.05	27.20	No
Qiao Wenjun	Independent Director	Male	38	3/2007–3/2010	0	—	0	10.0	0	0	30.05	27.20	No
Mi Zhengkun	Independent Director	Male	63	3/2007–3/2010	0	—	0	10.0	0	0	30.05	27.20	No
Li Jin	Independent Director	Male	41	3/2007–3/2010	0	—	0	10.0	0	0	30.05	27.20	No
Zhang Taifeng	Chairman of Supervisory Committee	Male	67	3/2007–3/2010	121,680	*Note 1*	170,352	94.9	0	0	30.05	27.20	No
Wang Wangxi	Supervisor	Male	42	3/2007–3/2010	0	—	0	57.7	0	0	30.05	27.20	No
He Xuemei	Supervisor	Female	38	3/2007–3/2010	0	—	0	48.8	0	0	30.05	27.20	No
Qu Deqian	Supervisor	Male	47	3/2007–3/2010	10,020	*Note 1*	14,028	0	0	0	30.05	27.20	No
Wang Yan	Supervisor	Female	44	3/2007–3/2010	0	—	0	0	0	0	30.05	27.20	No
Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	46	3/2007–3/2010	95,760	*Notes 1 and 2*	165,564	110.7	0	0	30.05	27.20	No
Xie Daxiong	Executive Vice President	Male	45	3/2007–3/2010	44,839	*Notes 1 and 2*	82,775	112.9	100,000	0	30.05	27.20	No
Tian Wenguo	Executive Vice President	Male	40	3/2007–3/2010	18,225	*Note 1*	25,515	113.6	100,000	0	30.05	27.20	No
Qiu Weizhao	Executive Vice President	Male	45	3/2007–3/2010	0	—	0	102.8	100,000	0	30.05	27.20	No
Fan Qingfeng	Executive Vice President	Male	40	3/2007–3/2010	0	*Note 2*	20,000	118.4	150,000	0	30.05	27.20	No
Chen Jie	Senior Vice President	Female	50	3/2007–3/2010	94,500	*Notes 1 and 2*	142,300	123.4	100,000	0	30.05	27.20	No
Fang Rong	Senior Vice President	Female	44	3/2007–3/2010	41,385	*Notes 1 and 2*	72,940	60.3	100,000	0	30.05	27.20	No
Zhao Xianming	Senior Vice President	Male	42	3/2007–3/2010	0	*Note 2*	15,000	81.5	180,000	0	30.05	27.20	No
Pang Shengqing	Senior Vice President	Male	40	3/2007–3/2010	0	*Note 2*	15,300	95.4	150,000	0	30.05	27.20	No
Zeng Xuezhong	Senior Vice President	Male	35	3/2007–3/2010	0	*Note 2*	30,000	111.9	150,000	0	30.05	27.20	No
Xu Huijun	Senior Vice President	Male	35	3/2007–3/2010	0	*Note 2*	15,000	107.5	180,000	0	30.05	27.20	No
Ye Weimin	Senior Vice President	Male	42	3/2007–3/2010	33,804	*Notes 1 and 2*	57,326	98.0	100,000	0	30.05	27.20	No
Ni Qin	Senior Vice President	Male	49	3/2007–3/2010	78,840	*Notes 1 and 2*	130,376	98.0	100,000	0	30.05	27.20	No
Wu Zengqi	Senior Vice President	Male	44	3/2007–3/2010	0	*Note 2*	20,000	79.9	150,000	0	30.05	27.20	No
Feng Jianxiong	Secretary to the Board	Male	35	3/2007–3/2010	0	*Note 2*	10,000	52.5	100,000	0	30.05	27.20	No
Total					**1,067,100**		**2,065,858**	**2,306.8**	**1,810,000**	**0**			

Note 1: The profit distribution and capitalisation from capital reserves for 2007 (creation of 4 shares for every 10 shares and RMB2.5 for every 10 shares (including tax) in cash) were implemented on 10 July 2008. The shareholdings of Directors, supervisors and senior management are accordingly adjusted.

Note 2: Certain Directors and senior management of the Company purchased a total of 571,916 A shares (being circulating shares) of the Company in the secondary market during 28 October 2008 to 29 October 2008. The purchases were made at market prices and financed by their private funds. Details are published in the "Announcement on the Purchase of the Company's Circulating Shares by Directors and Senior Management of the Company" in China Securities Journal, Securities Times, and Shanghai Securities News by the Company on 30 October 2008.

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
Hou Weigui	Chairman and Non-executive Director	11	3	6	2	0	Nil
Wang Zongyin	Vice Chairman and Non-executive Director	11	2	6	3	0	Nil
Xie Weiliang	Vice Chairman and Non-executive Director	11	5	6	0	0	Nil
Zhang Junchao	Non-executive Director	11	1	6	4	0	Nil
Li Juping	Non-executive Director	11	3	6	2	0	Nil
Dong Lianbo	Non-executive Director	11	5	6	0	0	Nil
Yin Yimin	Executive Director	11	3	6	2	0	Nil
Shi Lirong	Executive Director	11	3	6	2	0	Nil
He Shiyou	Executive Director	11	5	6	0	0	Nil
Zhu Wuxiang	Independent Non-executive Director	11	3	6	2	0	Nil
Chen Shaohua	Independent Non-executive Director	11	5	6	0	0	Nil
Qiao Wenjun	Independent Non-executive Director	11	5	6	0	0	Nil
Mi Zhengkun	Independent Non-executive Director	11	4	6	1	0	Nil
Li Jin	Independent Non-executive Director	11	4	6	1	0	Nil

Board meetings held during the year	11
Including: On-site meetings	2
Meetings via communications means	6
On-site meetings assisted by communications means	3

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 2008 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 2008, 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 2008, none of the Directors, Supervisors or the President of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

6. REPORT OF THE BOARD OF DIRECTORS

6.1 Discussion and analysis of overall operations during the reporting period

6.1.1 Review of Results

Business of the Group

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

Financial Results

Please refer to the financial statements appended to this annual report summary for the results of the Group for the year ended 31 December 2008 prepared in accordance with PRC ASBEs and HKFRSs.

Business review for 2008

<u>Overview of the PRC telecommunications industry in 2008</u>

Equipment makers of the domestic communications industry were presented with new opportunities for business growth in 2008 as industry resources had been realigned following a major reshuffling of the sector, underpinned by the establishment of the Ministry of Industry and Information Technology as well as the issuance of 3G licenses.

Overview of the global telecommunications industry in 2008

While worldwide economic recession triggered by the global financial crisis in 2008 dealt a heavy blow to nearly all sectors, the measure by which the communications industry had been affected was slightly smaller than average. The global telecommunications market was shifting from user-driven to business-driven growth, where investments were rapidly increasing in emerging markets such as the Asia Pacific, Africa and Latin America, while data business is fastest-growing segment in developed countries.

The equipment manufacturing industry continued to be underpinned by intense competition during the year. While favouring telecommunications carriers in terms of cost reductions, such competition also presented new opportunities to equipment makers from developing countries.

Operating results of the Group for 2008

The Group sustained stable development in 2008 and reported satisfactory growth for the reporting period despite pressures in the domestic and international market. Operating revenue of the Group based on financial statements prepared in accordance with PRC ASBEs and HKFRSs amounted to RMB44.293 billion, representing a year-on-year growth of 27.36%. Net profit grew 32.58% to RMB1,660 million.

By market:

The domestic market

The Group's revenue from its domestic operations amounted to RMB17.466 billion in 2008, representing a year on-year growth of 18.93%. We continued to substantially increase our market share in infrastructure products and lock in reasonable profitability by capitalising on 3G construction and broadband development in the PRC. Meanwhile, the Group was also actively involved in network overhaul, business integration and new business development, as it seized the enormous opportunity arising from the trend for carriers to transform into integrated information service suppliers through network fusion, business centralisation and competition via differentiation.

The international market

In 2008, the Group's revenue from its international operations grew 33.53% to RMB26.827 billion and accounted for 60.57% of its total operating revenue. While securing its market shares in developing countries, the Group was also steadily increasing the weight of sales in Europe and America, which were expected to grow into an important source for the Group's revenue.

By product:

Carriers' networks

The mainstream products, markets and carriers form the cornerstone for the Group's sustainable development. In 2008, the Group reported significant breakthroughs and growth in mainstream products such as GSM, WCDMA, optical transmission and FTTX. In the home market, the Company rolled out an optimal framework for 3G construction by actively participating in the 3G project tenders of the three leading domestic telecommunications carriers. Internationally, important breakthroughs have been made in regional strategic markets while our share in the market for multi-national carriers has been further substantiated, paving the way for setting new benchmarks in 2009.

In terms of the mainstream products, the Company maintained rapid year-on-year growth in global deliveries for GSM and WCDMA. Continuous improvements in new market shares around the world were reported, while our delivery capabilities for WCDMA products were well recognised by top-rate customers. During the period, our business in optical transmission products continued to report rapid growth in Southeast Asia, Asia Pacific and South Africa, while considerable progress was also being made in America and Europe. At the home market, we held a dominant market share for FTTX products.

In terms of mainstream markets, the Company continued to cement its market position in national and regional markets such as the PRC and India, while making various breakthroughs in markets where we traditionally lagged behind, such as the Middle East, CIS and South America. In Europe and North America, we succeeded in fostering added strengths in our system equipment products as our cooperation with major carriers such as Vodafone and Telstra entered into realistic stages.

Handsets

The Group's handset business continued to enjoy rapid full-year growth in 2008. International sales of handsets sustained speedy growth to maintain a significant weighting in the Group's gross handset sales, while GSM and WCDMA models provided the strongest growth drivers. In the coming year, the Group will continue to focus on mobile communications requirements in emerging markets, enhancing its profile as a professional provider in handset customisation that serves carriers' requirements for bulk purchases by providing quality low-end products as well as high-end intelligence/differentiation products and mobile broadband products.

Telecommunication software systems, services and other products

The Group reported growth in value-added services in 2008 with the benefit of increased carrier investments in this segment coupled with increased service revenue of subsidiaries.

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)	Operating profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in operating profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	44,293.4	29,492.5	33.42%	27.36%	28.20%	(0.43)
II. By product						
Carriers' networks	28,963.8	18,315.3	36.76%	28.34%	36.71%	(3.87)
Handset	9,692.6	7,393.0	23.73%	26.78%	24.47%	1.42
Telecommunication software systems, services and other products	5,637.0	3,784.2	32.87%	23.49%	3.18%	13.22
Total	**44,293.4**	**29,492.5**	**33.42%**	**27.36%**	**28.20%**	**(0.43)**

In order to conform with information disclosure relating to the Group's product categories as well as customary categorisation adopted by the industry and taking into account the Company's characteristics, the Group has decided to change the previous five product categories by combining the wireless communications systems category, optical communications and data communications systems category and wireline switch and access systems category into the category of carriers' networks, while the disclosure and composition of the other two categories will remain unchanged.

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

Geographic region	Operating revenue (RMB in millions)	Year-on-year increase/ decrease in operating revenue
The PRC	17,466.4	18.93%
Asia (excluding the PRC)	10,432.9	7.78%
Africa	9,311.1	69.76%
Other regions	7,083.0	43.78%
Total	**44,293.4**	**27.36%**

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

(1) Items relating to fair value measurement

Unit: RMB in thousands

Items	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	123,644	(123,644)[Note 1]	0	0	0
Including: derivative financial assets	123,644	(123,644)	0	0	0
2. Available-for-sale financial assets	0	0	0	0	0
Sub-total of financial assets	123,644	(123,644)	0	0	0
Financial liabilities[Note 2]	45,973	6,339	0	0	52,312.0
Investment properties	0	0	0	0	0
Productive living assets	0	0	0	0	0
Others	0	0	0	0	0
Total	**169,617**	**(117,305)**	**0**	**0**	**52,312.0**

Note 1: Fair-value gains/losses for the period were mainly attributable to the settlement of forward exchange contract, which resulted in the transfer of fair-value gains/losses recognised in the previous year to investment gains.

Note 2: Financial liabilities include tradable financial liabilities, financial guarantee contracts and provisions for retirement benefits.

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

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

(3) Internal control systems relating to fair value measurement

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

6.5 Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Items	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	123,644	(123,644)[Note 1]	0	0	0
Including: derivative financial assets	123,644	(123,644)	0	0	0
2. Loans and receivables	5,375,784	2,195,157[Note 2]	0	0	7,570,941
3. Available-for-sale financial assets	0	0	0	0	0
4. Held-to-maturity investments	0	0	0	0	0
Sub-total of financial assets	5,499,428	2,071,513	0	0	7,570,941
Financial liabilities	7,876	4,684	0	0	12,560

Note 1: Fair-value gains/losses for the period were mainly attributable to the settlement of forward exchange contract, which resulted in the transfer of fair-value gains/losses recognised in the previous year to investment gains.

Note 2: Increase in loans and receivables in foreign currency during the period.

6.6 Management discussion and analysis prepared in accordance with HKFRSs

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

Unit: RMB in millions

Profit and loss items	**2008**	2007
Operating revenue:		
Carriers' networks	**28,963.8**	22,567.5
Handsets	**9,692.6**	7,645.1
Telecommunication software systems, services and other products	**5,637.0**	4,564.6
Sales revenue	**44,293.4**	34,777.2
Cost of sales	**(29,911.5)**	(23,415.0)
Gross profit	**14,381.9**	11,362.2
Other income and revenue	**1,295.7**	1,028.0
Research and development costs	**(3,994.1)**	(3,210.4)
Selling and distribution costs	**(5,401.0)**	(4,531.5)
Administrative expenses	**(2,190.0)**	(1,718.2)
Other expenses	**(1,159.7)**	(898.2)
Profit from operating activities	**2,932.8**	2,031.9
Finance costs	**(690.2)**	(328.3)
Share of profit and loss of jointly controlled entities and associates	**19.9**	24.1
Profit before tax	**2,262.5**	1,727.7
Tax	**(350.6)**	(276.2)
Profit before minority interests	**1,911.9**	1,451.5
Attributable to: Minority interests	**(251.7)**	(199.3)
Attributable to: Shareholders of parent company	**1,660.2**	1,252.2
Dividend	**403.0**	239.9
Earnings per share		
— Basic	**1.24**	0.93
— Diluted	**1.20**	0.92

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	**2008**		2007	
	Revenue	**As a percentage of total revenue**	Revenue	As a percentage of total revenue
Carrier's networks	**28,963.8**	**65.4%**	22,567.5	64.9%
Handsets	**9,692.6**	**21.9%**	7,645.1	22.0%
Telecommunication software systems, services and other products	**5,637.0**	**12.7%**	4,564.6	13.1%
Total	**44,293.4**	**100.0%**	34,777.2	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	**2008**		2007	
	Revenue	**As a percentage of total revenue**	Revenue	As a percentage of total revenue
The PRC	**17,466.4**	**39.4%**	14,686.6	42.2%
Asia (excluding the PRC)	**10,432.9**	**23.6%**	9,679.4	27.8%
Africa	**9,311.1**	**21.0%**	5,484.8	15.8%
Other regions	**7,083.0**	**16.0%**	4,926.4	14.2%
Total	**44,293.4**	**100.0%**	34,777.2	100.0%

The Group's operating revenue increased to RMB44,293.4 million in 2008, a 27.4% growth compared to last year. Operating revenue from international sales continued to register growth, increasing by 33.5% to RMB26,827.0 million. Analysed by product, revenue from the carriers' networks, handsets and telecommunication software systems, services and other products all recorded year-on-year growth in varying degrees.

The growth in operating revenue from the Group's carriers' networks segment was attributable mainly to the growth in sales of wireless networks representing mainly international sales of GSM systems and domestic sales of CDMA systems, as well as the growth in sales of fixed-line networks in the international market.

The increase in operating revenue from the Group's handset product segment was driven mainly by sales growth of GSM, CDMA and 3G handsets in the international market.

The growth in operating revenue from the Group's telecommunications software systems, services and other products increased mainly as a result of increased sales of network terminals, services and materials.

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	**2008**		2007	
	Cost of sales	**As a percentage of revenue from the product segment**	Cost of sales	As a percentage of revenue from the product segment
Carriers' networks	**18,589.2**	**64.2%**	13,624.8	60.4%
Handsets	**7,394.1**	**76.3%**	5,985.9	78.3%
Telecommunication software systems, services and other products	**3,928.2**	**69.7%**	3,804.3	83.3%
Total	**29,911.5**	**67.5%**	23,415.0	67.3%

Unit: RMB in millions

Product segment	**2008**		2007	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**10,374.6**	**35.8%**	8,942.7	39.6%
Handsets	**2,298.5**	**23.7%**	1,659.2	21.7%
Telecommunication software systems, services and other products	**1,708.8**	**30.3%**	760.3	16.7%
Total	**14,381.9**	**32.5%**	11,362.1	32.7%

Cost of sales of the Group for 2008 increased 27.7% as compared to last year to RMB29,911.5 million. The Group's overall gross profit margin of 32.5%, largely unchanged from last year, reflected mainly improved gross profit margin for handsets and telecommunications software systems, services and other products coupled with lower gross profit margin for carriers' networks.

Cost of sales for the Group's carriers' networks increased by 36.4% to RMB18,589.2 million, while the segment's gross profit margin was 35.8% compared to 39.6% last year. The gross profit margin for carriers' networks was lower in tandem with weakened gross profit margin for CDMA and WCDMA systems.

Cost of sales for the Group's handset products amounted to RMB7,394.1 million, increasing by 23.5% compared to last year. Gross profit margin for the Group's handsets segment improved to 23.7% from 21.7% last year, mainly in tandem with increased weighting of international sales of 3G handsets and higher gross profit margin for CDMA handsets in the international market.

Cost of sales for the Group's telecommunications software systems, services and other products amounted to RMB3,928.2million, increasing by 3.3% compared to last year, with a gross profit margin of 30.3%, compared to 16.7% for last year. The increase in gross profit margin for the segment reflected primarily the increase in gross profit margin for network terminals and services.

Other income and revenue

Other income and revenue of the Group for 2008 amounted to RMB1,295.7 million, representing a 26.0% growth compared to RMB1,028.0 million for 2007. The increase reflected primarily growth in VAT rebates for software products.

Research and development costs

The Group's research and development costs for 2008 increased by 24.4% to RMB3,994.1 million from RMB3,210.4 million for 2007, and were little changed as a percentage of operating revenue at 9.0% (2007: 9.2%).

Selling and distribution costs

The Group's selling and distribution costs for 2008 increased by 19.2% to RMB5,401.0 million from RMB4,531.5 million for 2007, but decreased from 13.0% to 12.2% as a percentage of operating revenue. The decrease of selling and distribution costs as a percentage of operating revenue despite growth in gross amount was attributable mainly to economies of scale achieved by the Company.

Administrative expenses

Administrative expenses of the Group for 2008 increased by 27.5% to RMB2,190.0 million, as compared to RMB1,718.2 million for 2007, but were little changed from 2007 as a percentage of operating revenue at 4.9%.

Other expenses

The Group recorded other operating expenses of RMB1,159.7 million for 2008, increasing by 29.1% as compared to RMB898.2 million for 2007. This was primarily the result of an increase in exchange losses.

Profit from operating activities

The Group's profit from operating activities for 2008 increased by 44.3% to RMB2,932.8 million from RMB2,031.9 million for 2007, while the operating profit margin grew from 5.8% for 2007 to 6.6% for 2008, primarily as a result of expanded business scale.

Finance costs

Finance costs of the Group for 2008 increased by 110% to RMB690.2 million from RMB328.3 million for 2007 primarily as a result of increased interest expenses relating to bank loans and factoring operations.

Tax

The Group's income tax expense for 2008 was RMB350.6 million, 26.9% higher than RMB276.2 million for 2007, reflecting mainly a 31.0% growth in profit before tax for 2008 as compared to 2007. The effective tax rate for 2008 was slightly lower at 15.5%, compared to 16.0% for 2007.

Profit attributable to minority interests

The Group's minority interests for 2008 amounted to RMB251.7 million, which was 26.3% higher as compared to RMB199.3 million for 2007. Minority interests decreased from 13.7% in 2007 to 13.2% in 2008 as a percentage of profit before minority interests, reflecting mainly reduced profit of subsidiaries with a higher level of minority interests.

Gearing ratio and the basis of calculation

The Group's gearing ratio for 2008 was 40.8% (or 31.4% excluding the effect of the Bonds cum Warrants), up 7.3 percentage points from 33.5% in 2007 and reflecting mainly to the issue of Bonds cum Warrants.

Liquidity and capital resources

In 2008, 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 2008 amounted to RMB11,344.2 million.

Cash flow data

Unit: RMB in millions

	2008	2007
Net cash inflow/(outflow) from operating activities	**2,686.6**	(552.1)
Net cash outflow from investing activities	**(1,856.9)**	(1,655.7)
Net cash inflow from financing activities	**4,473.2**	4,366.9
Net increase in cash and cash equivalents	**5,302.9**	2,159.0
Cash and cash equivalents at year-end	**11,344.2**	6,309.7

Operating activities

The Group had a net cash inflow from operating activities of RMB2,686.6 million for 2008 compared to RMB552.1 million for 2007, reflecting year-on-year increase of cash outflow for purchases and the provision of labour by RMB5,747.2 million mainly as a result of expanded sales, increase of cash outflow for payments made to and on behalf of employees by RMB1,382.2 million and increase of tax payments by RMB785.3 million; coupled with increase of cash inflow from operating revenue by approximately RMB10,930.7 million and increase of cash inflow from tax rebates by approximately RMB1,323.4 million.

Investing activities

The net cash outflow from the Group's investment activities for 2008 was RMB1,856.9 million compared to a net cash outflow of RMB1,655.7 million for 2007. The cash outlay was mainly used in the cash payment of RMB1,229.6 million for the acquisition of properties, plant and equipment.

Financing activities

The Group's a net cash inflow from financing activities for 2008 was RMB4,473.2 million (2007: RMB4,366.9 million), comprising mainly RMB3,961.4 million in cash received from the issue of Bonds cum Warrants.

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	**2008**	2007
Purchases of fixed assets and construction in progress payments	**1,229.6**	1,494.3

The Group's capital expenditure in 2008 amounting to RMB1,229.6 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

Items	**As at 31 December**	
	2008	2007
Secured bank loans	**2,658.5**	866.4
Unsecured bank loans	**4,298.5**	5,622.2

Unit: RMB in millions

Items	**As at 31 December**	
	2008	2007
Short-term bank loans	**5,664.5**	4,403.4
Long-term bank loans	**1,292.5**	2,085.2

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

The Group's bank loans in 2008 increased mainly as a result of the borrowing of bank loans to provide additional working capital.

Contractual obligations

Unit: RMB in millions

Items	**As at 31 December 2008**			
	Total	**Less than one year**	**Two to five years**	**More than five years**
Bank loans	**6,957.0**	**5,664.5**	**1,292.5**	**—**
Operating lease obligations	**447.8**	**264.4**	**182.4**	**1.0**

Contingent liabilities

Unit: RMB in millions

Items	**As at December**	
	2008	2007
Factored trade receivables	**—**	—
Guarantees given to banks in respect of bank loans granted to third parties	**—**	—
Guarantees given to banks in respect of performance bonds	**8,245.9**	5,093.5
Total	**8,245.9**	5,093.5

Capital commitments

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

Unit: RMB in millions

Items	**As at December**	
	2008	2007
Land and buildings:		
Contracted, but not provided for	**301.4**	582.3
Investment in an associate:		
Contracted, but not provided for	**265.7**	255.2
Land and buildings:		
Authorised, but not contracted	**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 2008 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKFRSs in the 2008 annual report of the Company.

Prospects for New Business

Details of the prospects for new business of the Group are set out in the section headed "Chairman's Statement" in the 2008 annual report of the Company.

Employees

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2008 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees" and "Corporate Governance Structure" in the 2008 annual report of the Company.

Charges on Assets

Details of charges on the Group's assets as at 31 December 2008 are set out in note 31 to the financial statements prepared under HKFRSs in the 2008 annual report of the Company.

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 2008 are set out section headed "Report of the Board of Directors" in the 2008 annual report of the Company.

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 2008 annual report of the Company.

Market Risks

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

6.7 Use of proceeds

√ Applicable □ N/A

6.7.1 Progress of the Phase I Share Incentive Scheme of the Company during the reporting period

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

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. The impact of the Phase I Share Incentive Scheme of the Company on the Company's financial conditions and operating results for the reporting period and future periods is discussed in further detail in Note III.21 to the financial statements prepared under PRC ASBEs and Note 38 to the financial statements prepared under HKFRSs.

6.7.2 Use of proceeds from the offer and issue of Bonds cum Warrants by the Company

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

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

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

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

The first interest payment date of the bonds will fall on the first anniversary of the issue date (30 January 2009) and thereafter on 30 January of each year. The maturity of the bonds is 30 January 2013.

Holders of the Bonds have also been issued 1.63 Warrants for every Bond issued to them and therefore a total of 65,200,000 Warrants have been issued. The warrants are valid for 24 months from the date of listing, i.e. from 22 February 2008 to 21 February 2010. Warrant holders may exercise the warrants within the last 10 trading days of the valid period, i.e. from 1 February to 12 February 2010 (as 13 February to 19 February 2010 may coincide with Chinese New Year holidays and 20 February and 21 February are both holidays, therefore the exercise period shall be from 1 February to 12 February 2010). The initial conversion ratio of the Warrants has been determined at 2: 1 (numerical value 0.5), i.e., holders of the Warrants are entitled to subscribed for one A Share for every two Warrants held by them upon exercise of such Warrants. The initial exercise price of the Warrant carrying rights to subscribe for one A share issued by the Company is expected to be RMB78.13 per Share. The conversion ratio and exercise price of the Warrants are subject to adjustments pursuant to the relevant rules of the Shenzhen Stock Exchange.

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

   On 10 July 2008, the Company's plans for profit distribution and capitalisation from capital reserves for 2007 were implemented and the exercise price and ratio of the warrant ZXC1 were adjusted to RMB55.582 and 1: 0.703, respectively.

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

4. *Top Ten Bond Holders and Their Holdings*

As at 31 December 2008, the Top ten bond holders of the Company were as follows:

No.	**Name of bond holder**	**Number of bonds held**	**Bond holding ratio (%)**
1	New China Life Insurance Company Limited	7,991,671	19.98
2	Taikang Life Insurance Co., Ltd.	3,655,350	9.14
3	Petroleum Finance Company Limited	2,529,835	6.32
4	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06
5	Shenzhen Ping An Life Insurance Company (深圳平安人壽保險公司)	2,200,013	5.50
6	Ping An Life Insurance Company of China, Ltd.	1,737,880	4.34
7	PICC Health Insurance Company Limited — Traditional — General Insurance Products	1,400,000	3.50
8	China Pacific Insurance (Group) Coo., Ltd.	1,286,327	3.22
9	Agricultural Bank of China-Changsheng Tongde Focused Growth Stock Fund	881,995	2.20
10	China Life Insurance Company Limited — Dividend — Individual dividend — 005L FH002 Shen	838,825	2.10

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

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

During the reporting period, the Company's gearing ratio was 70.15% according to the financial statements prepared under PRC ASBEs and there was no change in the Company's credit rating. The Bonds cum Warrants of the Company have a 5-year life from the date of issuance. Interest is payable annually with the interest payment date falling on the anniversary of the issuance of the Bonds cum Warrants. The Company will pay the interest for the current year within 5 business days following (and inclusive of) the interest payment date. All bonds will be redeemed by the Company within 5 trading days following the maturity of the current bonds in issue, at face value plus interest accruable for the final year.

7. *Use of proceeds during the Reporting Period*

The Company utilised RMB2,303,063,400 of the issue proceeds the reporting year and a total of RMB3.88 billion had been utilised 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 廣東大華德律會計師事務所 (Guangdong Dahua Delu 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 "Verification Report on the 2008 Deposit and Application of Issue Proceeds of ZTE Corporation".

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	230,306.34
		Gross amount of issue proceeds utilised to-date	388,000.00
Gross amount of issue proceeds for which use has been changed	0		
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	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	7,678.80	18,782.00	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	4,729.07	11,776.00	N/A	N/A	4.12	See below	Yes	No
Industrialisation of TD upgrade technology	No	67,326	N/A	35,593.04	41,211.51	N/A	N/A	5.70	See below	Yes	No
Construction of innovative handset platform	No	174,915	N/A	78,058.37	136,882.09	N/A	N/A	5.29	See below	Yes	No
Construction of next generation broadband wireless mobile SDR platform	No	53,358	N/A	23,718.66	37,506.97	N/A	N/A	5.93	See below	Yes	No
Industralisation of next generation IP-based amalgamation network for full multi-media services	No	39,727	N/A	18,957.04	39,727.00	N/A	N/A	5.49	See below	Yes	No
Research, development and production of integrated network management system	No	56,635	N/A	18,371.01	30,487.71	N/A	N/A	5.31	See below	Yes	No
Industrialisation of xPON optical access	No	49,371	N/A	21,105.32	32,729.02	N/A	N/A	5.42	See below	Yes	No
Industrialisation of next generation optical network transmission equipment	No	64,108	N/A	23,136.80	39,939.47	N/A	N/A	5.05	See below	Yes	No
Construction of ICT integrated business platform	No	99,647	N/A	54,916.59	54,916.59	N/A	N/A	3.94	See below	Yes	No
Industrialisation of RFID systems integration	No	19,394	N/A	9,871.89	9,871.89	N/A	N/A	5.02	See below	Yes	No
Total		655,039	—	296,136.59	453,830.25	—	—	—			

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	Nil
Change to implementation location of investment projects using issue proceeds	Nil
Change to implementation method of investment projects using issue proceeds	Nil
Initial investments and fund replacements in investment projects using issue proceeds	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.
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 whereabouts of unutilised issue proceeds	Unutilised issue proceeds remained deposited in the account of the Company opened with National Development Bank, Shenzhen Branch designated for such issue proceeds
Problems and other information in the use of issue proceeds and related disclosure	Nil

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

Note 2: As at 31 December 2008, the Company had invested RMB4,538,302,500 in issue proceed investment projects. For certain of these projects, the agreed investment amounts set out in issue prospectuses had been met 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 progress of the projects and the earnings generated from them are discussed as follows:

<u>The building-up of the research and development and production environment and scale production capacity of TD-SCDMA HSDPA system equipment</u>

Following the completion of research and development of system equipment for the project, ancillary facilities for production environments such as the assembly environment, adjustment and testing environment and high-temperature aging environment were also ready for commercial supply after completion. Phase-one commercial equipment has been put to commercial application, while the dispatch of phase-two equipment has been completed.

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

On the basis of the initially built research and development environment and production environment for TD-SCDMA, ZTE had introduced a new terminal platform to enhance subsequent product development, especially HSDPA/HSUPA products. On the basis of this new terminal platform, a number of terminals were developed and equipment required for subsequent technology upgrades were introduced. Currently, commercial applications have been developed and launched in volumes. With ongoing efforts, ZTE has been a leader in the market in terms of TD-SCDMA subsequent technology upgrades, product research and development and commercial production capabilities.

<u>Industrialisation of TD upgrade technology</u>

As a TD upgrade technology, LTE/LTE-A represents the most important strategic work of ZTE, who has set up a research team comprising experts from the WCDMA, TD-SCDMA, WiMAX and CDMA lines as well as the next-generation communications technology (such as NGMN, FuTURE, LTE, enhanced LTE and enhanced IMT) research groups and dedicated to the research of key LTE and enhanced LTE technologies, covering areas such as network topological relationships and upgrades, SON and its enhancements, random access, paging and DRX, modulation, channel coding and enhancements, resource allocation and dispatch, MIMO and enhancements of multi-antenna technologies, ICIC and COMP, intra-LTE switching and switching between other systems and LTE, RRM and its enhancements, MBMS, MBSFN and its enhancements, H (e)NB structure and access control. Relay, etc.

Moreover, ZTE has offered numerous new technical propositions or solutions for the LTE Standards (3GPP Rel-8 version). For example, the ZTE series (comprising core technologies such as PRACH configuration, PRACH resource mirroring, ZC sequence realignment and short prefix design) has covered nearly the entire TDD PRACH structure. ZTE's research on RACH has also been extended to level 2 and level 3 of the structure. For this reason, ZTE has become the first manufacturer to propose the use of dedicated prefix during the process of random access in the switching within LTE. In this proposition, ZTE has elucidated how a non-competing RACH process can accelerate the course of execution and significantly shorten the period of business interruption. ZTE has also made significant contributions to the LTE TDD specific PCH sub-frame configuration and the solution for BCCH dispatch on the downlink CCCH channel. In recognition of its persistent contributions in the areas of MBMS enhancements, MBSFN transmission and E-MBMS structure, ZTE has been appointed the report drafter for the 3GPP TS26.444 conference, bringing the total reporter-seats of ZTE at the 3GPP conference to 8.

In 2009, the Company will commit additional resources to enhance its technological strengths and industry influence in LTE/LTE-A, in a bid to lay a solid foundation for subsequent industrialisation and commercialisation.

Construction of innovative handset platform

Handset TV: The initial target of achieving customisation in a short period was achieved with the basic completion of the handset TV platform tracking domestic and international mainstream handset TV standards. The next stage has started, which is the design of the business platform structure, and detailed design is currently underway.

Intelligence handsets: The launch of the 3G Windows Mobile Intelligence Handset with a full keypad and large touch-screen monitor operating on the Qualcomm platform is in the pipeline.

GoTa handsets: Two professional models of GoTa handsets, G780 and G682, have been commercially launched after completion of research and development. Research and development has formally commenced for a new model with special features including out-of-network communications and explosion-proof devices and progress has been satisfactory.

IMS customer-end software platform: Integration and optimisation of the elementary version was completed with further functional improvements. Fetion, PoC and VideoSharing services were put to partial commercial application in the TD-SCDMA terminal series. Development of the IMS multi-media video conferencing module has been completed and the product is currently under testing and verification. Service modules based on the IMS customer-end software platform have passed the TD-IMS project test of China Mobile Laboratory and will shortly undergo further testing and demonstration at existing TD-SCDMA networks.

Construction of next-generation broadband wireless mobile SDR platform

Following successful completion, the first commercial application version of hardware and base software platform has won tenders for the China Telecom CDMA network, China Mobile TD-SCDMA network and Hong Kong CSL network. The G/U dual-mode product completed successful test runs with a number of top carriers in the overseas market. As at the date of this report, the project has performed well in terms of market application, contributing significantly to the competitiveness of ZTE's wireless network equipment.

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

A state-of-the-art multi-media network solution named ZIMS™ has been launched. Built on the core IMS system structure that supports the fusion of a rich variety of wireline networks and wireless networks as well as the provision of voice, data and multi-media services, this solution provides users with next-generation information services characterised by strong multi-media functions, diversity and the ability to customise.

For our IMS services, a desktop video-conferencing system was installed for certain high-end carriers and amalgamated with the HD conferencing system. These services were well received by carriers in practical application and the competitiveness of our IMS service platform was further enhanced as a result. The support of HD desktop video-conferencing services based on its understanding of similar products offered in the market is becoming a special feature in the differentiation of our IMS service platform.

Meanwhile, in response to the operational requirements of certain deployed pilot commercial stations, our IMS service is processing improvements to its distributive structure to prepare for the commercial application of large-scale platforms.

Research, development and production of Integrated network management system

With the completion of the development of the centralised network management software platform level, the inter-connection among core networks, wireless networks (including GSM, CDMA, WCDMA and TD-SCDMA), transmission networks, data networks and power supply networks, as well as overall topology, alarm management, performance data collection, centralised management and auxiliary functions such as report generation and event processing flow, can now be facilitated.

Industrialisation of xPON optical access

China Telecom and China Unicom started large-scale construction of EPON networks during 2008. ZTE topped the EPON tender lists of China Telecom and China Netcom to make EPON the genuine top domestic brand as it distinguished itself from competition on the back of its solid research and development capabilities and comprehensive range of sophisticated products. Our EPON and GPON products also reported back-to-back success in high-end overseas markets, adding Telecom Italia, PCCW of Hong Kong and Telecom Argentina to the customer list.

Industrialisation of next generation optical network transmission equipment

The next-generation optical network transmission equipment of ZTE is positioned as the "carrier of dreams and values" that provides customers with one-stop transmission solutions such as WDM/OTN, MSTP/PTN and NMS. These solutions are able to fulfill the network construction requirements of multiple levels of the carrier's network, including the backbone level, the core level and the peripheral level, as well as the requirements of telecom network upgrades and one-stop operations of carriers. In 2008, the project continued to achieve satisfactory progress. Certain new products were successfully launched following completion of the industrialisation process and gained wide approval among industry users, such as the "2008 BBWF Metro Network Technologies and Services Award" won by our "MSTP Embedded RPR Solution".

Currently, ZTE optical networks are being extensively marketed in about 90 national/ regional markets in Europe, Asia Pacific, Latin America, Africa and the Middle East and employed by over 250 carriers. With the ongoing advance of the "ZTE next-generation optical network transmission equipment industrialisation project", ZTE's market position in the optical network sector has been further reinforced. According to the report of OVUM-RHK, a world-renowned consulting agency, ZTE optical network products sustained fast growth in the global market in 2008, with steady increase in market share. As the project continues to roll on, more new products will be launched in 2009 to capture more market shares following completion of the industrialisation process.

Construction of ICT integrated business platform

The primary purpose of the ICT integrated business platform project is to develop, with the application IT and CT technological integration, an operable and manageable integrated business platform for international and domestic carriers for their provision of integrated information services to corporate customers. In 2008, the project reported satisfactory progress as carriers further efforts in the transformation of their business model. In the PRC, the platform played an important role in this transformation with successful applications in China Mobile's ADC service, China Telecom's EMA service and China Unicom's UTM service. Elsewhere, we built a national-grade data centre for Ethiopian Telecommunications providing centralised network management and security control. Mobile office services underpinned by PUSHMAIL were also launched in a number of countries.

Industrialisation of RFID systems integration

The Company owns 107 patent rights from its full range of proprietary RFID products, which are mainly related to core RFID technologies such as air interface protocol and anti-collision algorithm. The project boasts comprehensive research and development capabilities in electronic tag antenna design, reader series product development, intermediary product research and development, application software product development and radio magnetic field optimisation, covering key sections in the RFID systems integration structure including the base level (data collection), the intermediate level (transmission) and the upper level (application) of the RFID network.

With the completion of principal RFID software and hardware product development, our product sequence now comprises product series such as UHF, HF, 5.8G active power and 433M active power. Our 800M/900M ultra-high-frequency series has passed the stringent tests of the National RFID Monitoring and Testing Centre and has been listed as an approved national model of radio frequency transmission equipment, ascertaining our leadership in ultra-high-frequency products. The 5.8G active power ETC for non-stop toll ways and equipment for installation in vehicles have passed stringent tests and compatibility certification of the Transport Projects Monitoring and Testing Centre under the Ministry of Transport. It has also passed practical verifications in the inter-provincial connection and compatibility tests.

As a supplier of RFID products and applications, the project is currently conducting RFID pilot applications in the market. Apart from areas of general market concerns, such as personnel management, vehicle management, asset management and warehouse logistics, where our serialised RFID ultra-high-frequency and high-frequency products that have been employed, our RFID products have also performed strongly in non-stop toll ways, army warehouse logistics supply chain and integrated application of single-card dual-mode enterprise solutions.

8. *Others*

On 27 February 2008, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with National Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. The "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was passed at the twelfth meeting of the fourth session of the Board of Directors of the Company held on 13 March 2008. On 14 July 2008, the Company received the "Notice of Replacement of Sponsor's Representative" from Guotai Junan Securities Co., Ltd., the Company's sponsor in respect of the issue of Bonds cum Warrants. The Company published the "Announcement of Interest Payment for "'中興債1'" on 17 January 2009 and bond interests with a total amount of RMB32,000,000 were paid on 2 February 2009. Details of the aforesaid matters have been disclosed in China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn.

Changes to projects committed

□ Applicable √ N/A

6.8 Investments using funds other than issue proceeds

√ Applicable □ N/A

In August 2008, the Company made a capital contribution of RMB200 million for equity interests in 航天科技投資控股有限公司 ("航天投資") representing 10% of the registered capital of (the "Investment"). The Investment was considered and approved by the Board of Director of the Company at the seventeenth meeting of the Fourth Session of the Board. For further details, please refer to the "Announcement of the Resolutions Passed at the Seventeenth Meeting of the Fourth Session of the Board of Directors" and the "Announcement of Connected Transactions" of the Company dated 21 August 2008 and published in China Securities Journal, Securities Times and Shanghai Securities News.

In October 2008, the Company entered in an investment agreement (the "Investment Agreement") with Xi'an Hi-tech Industrial Development Park Management Committee (西安高新技術產業開發區管理委員會) (the "Park Committee") in Xi'an, pursuant to which the Park Committee agreed to the investment in and construction of "ZTE Corporation Xi'an Research and Development and Production Base" (the "Project Investment") in Xi'an Hi-tech Industrial Development Park by the Company. The Project Investment was considered and approved by the Board of Director of the Company at the eighteenth meeting of the Fourth Session of the Board on 6 October 2008 and the 2008 First Extraordinary General Meeting on 27 November 2008. For further details, please refer to the "Announcement of the Resolutions Passed at the Eighteenth Meeting of the Fourth Session of the Board of Directors", "Announcement on Planned External Investment" and "Announcement in respect of Resolutions of the First Extraordinary General Meeting for 2008" of the Company dated 7 October 2008 and 28 November 2008, respectively, and published in China Securities Journal, Securities Times and Shanghai Securities News.

In December 2008, the Company made a capital contribution of RMB600 million to establish Xi'an Zhongxing New Software Company Limited (西安中興新軟件有限責任公司) ("Xi'an Zhongxing New Software") as an 100%-owned subsidiary with an investment amount of RMB600 million. For further details, please refer to the "Announcement of the Resolutions Passed at the Twenty-first Meeting of the Fourth Session of the Board of Directors" and "Announcement on External Investment" of the Company dated 13 December 2008 and published in China Securities Journal, Securities Times and Shanghai Securities News.

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 and capitalisation from capital reserves for 2008

Net profit of the Company for the year 2008 calculated in accordance with PRC ASBEs amounted to RMB977,862,000. Profit available for distribution amounted to RMB2,395,734,000 after adding the undistributed profit of RMB1,417,872,000 carried forward at the beginning of the year. Net profit of the Company for the year 2008 calculated in accordance with HKFRSs amounted to RMB975,994,000. Profit available for distribution amounted to RMB2,399,412,000 after adding the undistributed profit of RMB1,423,418,000 carried forward at the beginning of the year.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB2,395,734,000. The proposed profit distribution and capitalisation from capital reserves for 2008 recommended by the Board of Directors of the Company is as follows:

Proposed profit distribution for 2008: RMB3 in cash for every 10 shares (including tax) or a total of RMB402,999,000, based on the Company's total share capital of 1,343,330,310 shares as at 31 December 2008.

Proposed capitalisation from capital reserves for 2008: the creation of 3 shares for every 10 shares by way of capitalisation of capital reserves, representing a total increase of 402,999,093 shares based on the Company's total share capital of 1,343,330,310 shares as at 31 December 2008.

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 17 April 2009.

According to the Enterprise Income Tax Law of the People's Republic of China and the Implementation Regulations for Enterprise Income Tax of the People's Republic of China which took effect on 1 January 2008, enterprise income tax is payable by non-resident enterprises in respect of income derived from the PRC at an applicable tax rate of 10% and listed issuers shall withhold such enterprise income tax on behalf of the non-resident enterprises. Cash dividend payable to H-share non-resident enterprises after the deduction of the said enterprise income tax is RMB2.7 for every 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 2007, was implemented on 10 July 2008. For further details, please refer to the "Announcement on Profit Distribution and Capitalisation from Capital Reserves for 2007 of ZTE Corporation" dated 4 July 2008 and published in China Securities Journal, Securities Times and Shanghai Securities News.

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

Unit: RMB in thousands

Year	**Cash distribution amount (tax inclusive)**	**Net profit in the consolidated statements attributable to shareholders of the listed company**	**Cash distribution as a percentage of net profit in the consolidated statements attributable to shareholders of the listed company (%)**
2005	239,880	1,194,343	20.08
2006	143,928	807,353	17.83
2007	239,880	1,252,158	19.16

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 exposure for 2009

6.13.1 *Business outlook for 2009*

2009 is set to be a year of extreme importance for the Group, as it embraces new development opportunities presented by the official issuance of 3G licenses in the PRC. Meanwhile, the Group's international business expansion will face challenges amid the aggravating financial crisis.

In 2009, the Company will further enhance its project management through persistent implementation of the cost-leadership strategy and enhancement of financing capabilities as well as market-driven research and development capabilities. In terms of product planning, product output, competition strategies and network optimisation capabilities, we intend to capitalise on our capabilities in integrated solutions based on multiple products. Meanwhile, we will continue to improve our human resource management and further enhance our overall efficiency.

6.13.2 *Risk exposure*

(1) Interest rate risks:

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

(2) Foreign Exchange risks:

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. The Group endeavoured to include terms relating to exchange risk aversion or sharing when entering into purchase and sales contracts and sought to enhance its internal management standards by actively managing its foreign exchange position and matching currencies and amounts received or incurred. Where matching was not practicable, derivative products such as foreign exchange forward contracts were employed to lock up exchange rates in varying proportions based on the maturity profile of the outstanding foreign exchange positions, so as to minimise the impact of exchange rate fluctuations on the principal business of the Group. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group has formulated a foreign exchange risk management policy that takes into account the 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 risk management through the extensive use of exchange-related derivative products.

(3) Credit risks

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

(4) Country risks

Given recent developments in the global economy and financial market, the Group will continue to be exposed to political risks, sovereignty risks and transfer risks in countries where its projects are operated and 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 in favour of subsidiaries

Guaranteed party	Date of incurrence (date of execution of relevant agreements)	Amounts guaranteed	Type of guarantee	Term	Whether fully performed	Whether provided in favour of connected parties (Yes/No)
Djibouti Telecom S.A	8 September 2006	RMB50 million	Joint liability	12 years	No	No
United Telecoms Limited *(Note 1)*	11 December 2006	73,923,700 Indian Rupee (approximately RMB10,361,900)	Assurance	3 years	No	No
Benin Telecoms S.A. *(Note 2)*	28 June 2007	USD3 million	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)	80,865,700

Guarantees provided in favour of subsidiaries

Total amount guaranteed in favour of subsidiaries during the year *(Note 3)*	USD50,000,000
Total amount guaranteed among subsidiaries during the year	RMB38,192,000
Total balance of amount guaranteed in favour of subsidiaries at the end of the year (B)	USD61,405,500 RMB51,473,300

Total amount guaranteed by the Company (including guarantees in favour of subsidiaries)	
Total guaranteed amount (A + B)	RMB531,517,200
Total guaranteed amount as a percentage of net assets of the Company at the end of the year	3.50%
of which:	
Amounts of guarantees provided in favour of shareholders, de facto controllers and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly in favour of parties with a gearing ratio exceeding 70% *(Note 4)* (D)	USD11,405,500
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above (C + D + E)	USD11,405,500

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.

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: Guarantee provided by the Company in favour of ZTE HK, a wholly-owned subsidiary, in respect of a USD50 million banking credit facility granted to ZTE HK, as approved at the tenth meeting of the fourth session of the Board of Directors of the Company. ZTE HK utilised the facility twice in March 2008 and May 2008, respectively.

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

Note 5: Guaranteed amounts denominated in Indian Rupee are translated at the exchange rate of 1 Indian Rupee to RMB0.14017 (being the book exchange rate of the Company on 31 December 2008). Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.8346 (being the book exchange of the Company on 31 December 2008).

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 conditions
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.	78,018.33	3.19%	Banker's acceptance bill	No
		Shenzhen Zhongxing WXT Equipment Company, Ltd.	Various products such as IC, connectors, optical devices, modules and other ancillary equipment	Consistent with market prices (as per contract)	IC: RMB100–RMB1,000 per unit depending on brand, capacity and technical parameters; connectors: RMB2–RMB120 per unit depending on technical parameters and functional features; Optical devices: RMB120–RMB17,500 per unit depending on technical parameters and functional features.	5,984.69	0.24%	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 depending on technical parameters and functional features.	22,109.63	0.90%	Banker's acceptance bill	No

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 conditions
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)	662.96	1.16%	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)	2,190.50	4.06%	Banker's acceptance bill	No
		Shenzhen Zhongxing Development Company Limited (lessor)	Property located at 19 Huayuan East Road, Haidian District, Beijing with a leased area of 25,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB115/ sq. m. (property management undertaken by ZTE and no management fees are payable)	3,314.26	6.15%	Banker's acceptance bill	No
		Chongqing Zhongxing Development (lessor)	Property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq. m.	Consistent with market prices (as per contract)	Monthly rent of RMB30/ sq. m. (property management undertaken by the Company and no management fees are payable)	85.8	0.16%	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 RMB248,000.

The transfer of 100% interests in ZTE Energy (Cayman) Company Limited ("ZTE Cayman Energy"), a wholly-owned subsidiary of ZTE HK to Zhongxing Energy Company Limited, a connected party, for a consideration of USD4.45 million was considered and passed at the thirteenth meeting of the Fourth Session of the Board of Directors of the Company held on 19 March 2008 (for details please refer to the "Announcement on Connected Transactions" and the "Announcement on the Progress of Connected Transactions" of the Company dated 20 March 2008 and 15 May 2008, respectively.

In August 2008, the Company made a capital contribution of RMB200 million for equity interests in 航天投資. For further details, please refer to Section 6.8 headed "Investments using funds other than issue proceeds" of this report.

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

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

√ Applicable □ N/A

Name of shareholder	Undertaking	Performance of undertaking
Zhongxingxin	For details of Zhongxingxin's undertaking,please refer to Section 4.2.1	Performance completed

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

7.6.3 ***There were no additional undertaking given by shareholders of the Company holding more than 5% in respect of shares subject to lock-up***

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 2008 annual report of the Company for details of the progress during the year of non-material litigation and arbitration occurring prior to the year and non-material litigation and arbitration occurring during the year.

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

7.8.1 ***Investment in securities***

□ Applicable √ N/A

7.8.2 ***Equity interests in other listed companies***

□ Applicable √ N/A

7.8.3 ***Equity interests in non-listed financial enterprises***

□ Applicable √ N/A

7.8.4 ***Dealings in shares of other listed companies***

□ Applicable √ N/A

8. REPORT OF THE SUPERVISORY COMMITTEE

8.1 Supervisory committee meetings

The Supervisory Committee held seven meetings in 2008, the details of which are as follows:

1. The seventh meeting of the fourth session of the Supervisory Committee of the Company was held on 13 March 2008, at which the "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was considered and approved. The announcement of the resolution of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 14 March 2008.

2. The eighth meeting of the fourth session of the Supervisory Committee of the Company was held on 19 March 2008, at which the "2007 report on the work of the Supervisory Committee", "Full Text and Summary of the 2008 annual report and the Results Announcement of the Company", "the Final Financial Accounts of the Company for 2007", "Resolution on Significant Asset Impairment Provision for 2007 by the Company", "Report of the Audit Committee on the 2007 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 2007", "Resolution of the Company on the Transfer of the Entire 100% Interest in ZTE Energy (Cayman) Held by Wholly-owned Subsidiary ZTE HK", "Report on the Proposed Profit Distribution and Capitalisation from Capital reserves of the Company for 2007", "Resolution of the Company on the Proposed Ongoing Connected Transaction Framework Agreement for 2008", "Resolutions with respect to the Proposed Application by the Company for Composite Credit Facilities for the Six Months ended 30 June 2008" and the "Resolution on the Appointment of the PRC Auditors and the Hong Kong Auditors of the Company for 2008" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 20 March 2008.

3. The ninth meeting of the fourth session of the Supervisory Committee of the Company was held on 24 April 2008, at which the "Report on the Preparation of the 2008 First Quarterly Report of the Company" and the "Resolution of the Company on the Retrospective Adjustments to the 2007 First Quarterly Financial Statements" was considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times, and Shanghai Securities News on 25 April 2008.

4. The tenth meeting of the fourth session of the Supervisory Committee of the Company was held on 29 July 2008, at which the "Resolution of the Company on the 'Self-Inspection Report on Fund Appropriation by the Controller Shareholder and Its Connected Parties'" was considered and approved. The announcement of the resolution of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 30 July 2008.

5. The eleventh meeting of the fourth session of the Supervisory Committee of the Company was held on 20 August 2008, at which the "Full Text and Summary of the 2008 Interim Report and the Results Announcement of the Company", "2008 Interim Final Financial Accounts", "Resolutions of the Company with respect to the Supplementary Application for Composite Credit Facilities for the six months ended 31 December 2008", "Resolution of the Company on the Continued Purchase of 'Liability Insurance for Directors, Supervisors and Senior Management'" and "Resolution of the Company on the Equity Investment in an Aeropsace Technology Investment Holding Company with Limited Liability" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 21 August 2008.

6. The twelfth meeting of the fourth session of the Supervisory Committee of the Company was held on 23 October 2008, at which the "Report on the Preparation of the 2008 Third Quarterly Report of the Company" and "Resolutions of the Company on Connected Transactions regarding the Lease of Properties" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 24 October 2008.

7. The thirteenth meeting of the fourth session of the Supervisory Committee of the Company was held on 25 November 2008, at which the "Resolution of the Company on the Adjustment to the Volume of Subject Shares and the Grant of Reserved Subject Shares to Staff under the 'Phase I Share Incentive Scheme'" and the "Resolution of the Company on the Verification of the List of Scheme Participants in respect of the Reserved Subject Shares under the 'Phase I Share Incentive Scheme'" were considered and approved. The announcement of the resolutions of the Supervisory Committee was published in China Securities Journal, Securities Times and Shanghai Securities News on 26 November 2008.

8.2 The Supervisory Committee has furnished its opinion on the Company's conditions in 2008 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 2008 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 2008 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 2008 financial report of the Company gives a true and accurate view of the financial position, and operating results of the Company for the year 2008.

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 2008.

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 2008.

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 2008 and the consolidated and company income statement and cash flow statements for the year ended 31 December 2008 prepared by the Group in accordance with PRC ASBEs and with HKFRSs.

10.2 Audit Opinion

The consolidated and company balance sheets as at 31 December 2008, the consolidated and company income statements and cash flow statements for the year ended 31 December 2008 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming, who has issued a standard auditors' report without any qualified opinion (Ernst & Young Hua Ming (2009) SHENZI NO. 60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company balance sheets as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2008 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 2007 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 2007 annual report are set out in the following table:

New subsidiaries consolidated	Effective date of consolidation	Net assets as at the end of the period	Net profit as at the end of the period	Reason for the change in scope of consolidation
Xi'an Zhongxing New Software Company Limited (西安中興新軟件有限責任公司)	31 December 2008	600,000	0	Expansion of business scope
ZTE JAPAN K.K.	31 March 2008	2,083	-187	Expansion of business scope
ZTE Bolivia S.R.L.	31 August 2008	-228	-302	Expansion of business scope
ZTE Ukraine LLC	31 August 2008	103	0	Expansion of business scope
ZTE Lanka (Private) Limited	31 December 2008	6,493	0	Expansion of business scope
ZTE TECHNOLOGY	30 September 2008	1,631	1,221	Expansion of business scope
南京中興技術軟件有限公司	31 October 2008	4,960	-40	Expansion of business scope
ZET KAZAKHSTAN LLP	30 November 2008	817	-86	Expansion of business scope
ZTE MONGOLIA LTD	31 December 2008	683	0	Expansion of business scope

Subsidiaries deconsolidated	Effective date of deconsolidation	Net assets as at the end of the period	Net profit as at the end of the period	Reason for the change in scope of consolidation
南京德瑞通訊技術有限公司	1 August 2008	-0.4	-5	Business integration requirements
ZTE Energy (Cayman) Co., Limited	1 November 2008	47,066	-9,254	Business integration requirements
中興能源(湖北)有限公司	1 November 2008	48,647	-6,296	Business integration requirements
中興能源技術(武漢)有限公司	1 November 2008	-1,845	-2,891	Business integration requirements
廣州南方電信系統軟件有限公司	1 March 2008	-14,640	-190	Business integration requirements

By order of the Board
Hou Weigui
Chairman

Shenzhen, PRC
20 March, 2009

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

ZTE CORPORATION
Balance Sheet (Audited)

Currency: RMB'000

Assets	*Notes*	**2008.12.31** Consolidated	**2008.12.31** Company	2007.12.31 Consolidated *(Restated)*	2007.12.31 Company *(Restated)*
Current assets:					
Cash on hand and at bank		**11,480,406**	**8,331,272**	6,483,170	4,640,149
Derivative financial assets		**—**	**—**	123,644	123,644
Bills receivables		**1,578,473**	**1,513,358**	1,656,258	1,599,250
Trade receivables		**9,972,495**	**13,186,642**	7,098,949	8,945,606
Factored trade receivables		**1,658,941**	**1,783,941**	153,668	278,668
Prepayments		**355,887**	**18,546**	311,362	85,165
Dividends payable		**—**	**23,848**	—	184,589
Other receivables		**757,847**	**1,442,177**	689,889	1,489,362
Inventories		**8,978,036**	**5,211,017**	7,429,503	3,506,876
Amount due from customers for contract works		**7,894,010**	**8,038,449**	6,540,218	6,153,299
Total current assets		**42,676,095**	**39,549,250**	30,486,661	27,006,608
Non-current assets:					
Available-for-sale financial assets		**251,148**	**243,198**	43,464	41,464
Long term trade receivables		**612,008**	**1,214,038**	581,007	401,715
Factored long term trade receivables		**753,568**	**753,568**	3,142,709	3,142,709
Long-term equity investments		**168,433**	**1,747,760**	137,019	547,970
Fixed assets		**4,103,076**	**2,608,957**	3,038,063	1,878,330
Construction in progress		**817,086**	**402,290**	931,090	817,787
Intangible assets		**589,084**	**479,947**	224,848	78,398
Development costs		**476,020**	**137,915**	258,991	127,624
Deferred income tax assets		**400,265**	**231,182**	352,210	284,230
Long-term deferred assets		**19,138**	**—**	33,494	—
Total non-current assets		**8,189,826**	**7,818,855**	8,742,895	7,320,227
Total assets		**50,865,921**	**47,368,105**	39,229,556	34,326,835

ZTE CORPORATION
Balance Sheet (Audited) (con't)

Currency: RMB'000

Liabilities and shareholders' equity	*Notes*	**2008.12.31** Consolidated	**2008.12.31** Company	2007.12.31 Consolidated (*Restated*)	2007.12.31 Company (*Restated*)
Current liabilities:					
Short-term loans		**3,882,479**	**1,273,828**	2,893,855	2,535,673
Bank advances on factored trade receivables		**1,658,941**	**1,783,941**	153,668	278,668
Derivative financial liabilities		**12,560**	**12,560**	7,876	—
Bills payable		**6,318,059**	**6,901,568**	3,946,429	3,818,010
Trade payables		**9,495,946**	**12,582,726**	7,856,240	8,616,400
Amount due to customers for contract work		**2,965,582**	**2,408,455**	1,597,314	472,653
Advances from customers		**1,392,862**	**1,640,192**	1,491,219	1,502,276
Salary and welfare payables		**1,443,017**	**596,515**	1,207,431	516,807
Taxes payable		**(765,040)**	**(993,777)**	(1,342,330)	(1,056,962)
Dividends payable		**22,750**	**10**	41,180	500
Other payables		**1,553,011**	**4,188,152**	1,348,465	2,677,845
Deferred income		**64,281**	**31,263**	101,695	21,695
Provision		**170,382**	**100,724**	126,042	78,463
Long-term loans due within one year		**1,782,006**	**673,384**	1,509,569	1,509,569
Total current liabilities		**29,996,836**	**31,199,541**	20,938,653	20,971,597
Non-current liabilities:					
Long-term loans		**1,292,547**	**1,005,039**	2,085,229	911,322
Bank advances on factored long-term trade receivables		**753,568**	**753,568**	3,142,709	3,142,709
Bonds payable		**3,514,652**	**3,514,652**	—	—
Specific payables		**80,000**	**80,000**	80,000	80,000
Deferred income tax liabilities		**5,019**	**7,242**	56,460	27,823
Other non-current liabilities		**39,752**	**39,752**	38,097	38,097
Total non-current liabilities		**5,685,538**	**5,400,253**	5,402,495	4,199,951
Total liabilities		**35,682,374**	**36,599,794**	26,341,148	25,171,548

ZTE CORPORATION
Balance Sheet (Audited) (con't)

Currency: RMB'000

		2008.12.31		2007.12.31	
Liabilities and shareholders' equity	Notes	**Consolidated**	**Company**	Consolidated	Company
Shareholders' equity:					
Share capital		**1,343,330**	**1,343,330**	959,522	959,522
Capital reserves		**6,298,172**	**6,271,137**	5,807,332	5,772,061
Surplus reserves		**1,431,820**	**769,603**	1,364,758	769,603
Retained profits		**5,021,369**	**1,992,735**	3,831,231	1,417,872
Proposed final dividend		**402,999**	**402,999**	239,880	239,880
Foreign currency translation differences		**(248,146)**	**(11,493)**	(65,562)	(3,651)
Equity attributable to equity holders of the parent		**14,249,544**	**10,768,311**	12,137,161	9,155,287
Minority Interests		**934,003**	**—**	751,247	—
Total shareholders' equity		**15,183,547**	**10,768,311**	12,888,408	9,155,287
Total liabilities and shareholders' equity		**50,865,921**	**47,368,105**	39,229,556	34,326,835

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

ZTE CORPORATION
Income Statement (Audited)

Currency: RMB'000

Item	2008 Consolidated	2008 Company	2007 Consolidated *(Restated)*	2007 Company *(Restated)*
1. Operating revenue	**44,293,427**	**40,745,196**	34,777,181	32,799,255
Less: Operating costs	**29,492,530**	**33,455,197**	23,004,541	27,598,911
Taxes and surcharges	**415,854**	**89,472**	280,266	41,396
Selling and distribution costs	**5,312,516**	**4,076,649**	4,395,125	3,678,450
Administrative expenses	**2,099,715**	**1,131,736**	1,777,554	1,165,704
Research and development costs	**3,994,145**	**885,718**	3,210,433	1,066,595
Finance costs	**1,308,254**	**1,013,256**	494,371	683,100
Impairment losses	**419,358**	**164,869**	789,140	669,501
Add: Fair value gains/losses	**(128,328)**	**(136,203)**	115,566	123,644
Investment income	**122,666**	**1,268,859**	59,437	2,050,189
Including: Share of profits and losses of associates and jointly controlled entitles	**19,877**	**1,867**	24,267	5,268
2. Operating profit	**1,245,393**	**1,060,955**	1,000,754	69,431
Add: Non-operating income	**1,098,296**	**127,061**	906,133	127,117
Less: Non-operating expenses	**81,146**	**46,571**	179,153	64,481
Including: Profit/loss on disposal of non-current assets	**37,154**	**17,879**	23,927	11,508
3. Total profit	**2,262,543**	**1,141,445**	1,727,734	132,067
Less: Income tax	**350,608**	**163,583**	276,283	106,732
4. Net profit attributable to:	**1,911,935**	**977,862**	1,451,451	25,335
Equity holders of the parent Company	**1,660,199**	**977,862**	1,252,158	25,335
Minority interests	**251,736**	**—**	199,293	—
5. Earnings per share				
(1) Basic	**1.24**	**0.73**	0.93	0.02
(2) Diluted	**1.20**	**0.71**	0.92	0.02

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

ZTE CORPORATION
Cash Flow Statement (Audited)

Item	2008 Consolidated	2008 Company	2007 Consolidated	2007 Company
1. Cash flows from operating activities				
Cash received from sale of goods or rendering services	**45,008,874**	**39,233,345**	34,078,133	29,194,282
Cash received from taxes returned	**3,972,631**	**3,088,258**	2,649,273	1,986,659
Cash received relating to other operating activities	**325,759**	**213,248**	199,881	158,803
Sub-total of cash inflow	**49,307,264**	**42,534,851**	36,927,287	31,339,744
Cash paid for goods and services	**30,430,667**	**31,511,180**	24,683,459	26,772,364
Cash paid to and on behalf of employees	**6,160,806**	**1,523,431**	4,778,567	1,884,394
Payments of taxes and levies	**2,515,238**	**149,482**	1,729,913	132,293
Cash paid relating to other operating activities	**6,552,640**	**4,734,886**	5,646,958	2,538,701
Sub-total of cash outflow	**45,659,351**	**37,918,979**	36,838,897	31,327,752
Net cash flows from operating activities	**3,647,913**	**4,615,872**	88,390	11,992
2. Cash flows from investing activities				
Cash received from sale of investments	**15,392**	**—**	26,803	10,146
Cash received from gains of investment	**89,862**	**97,900**	34,479	29,534
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	**52,554**	**—**	18,295	—
Sub-total of cash inflow	**157,808**	**97,900**	79,577	39,680
Cash paid to acquire fixed asset, intangible assets and other long-term assets	**1,911,923**	**1,302,964**	1,777,223	1,276,510
Cash paid for equity investment	**233,536**	**805,114**	60,000	65,151
Sub-total of cash outflow	**2,145,459**	**2,108,078**	1,837,223	1,341,661
Net cash flow from investing activities	**(1,987,651)**	**(2,010,178)**	(1,757,646)	(1,301,981)

ZTE CORPORATION
Cash Flow Statement (Audited) (con't)

Item	2008 Consolidated	2008 Company	2007 Consolidated	2007 Company
3. Cash flows from financing activities				
Cash received from investment	**43,342**	**43,342**	503,138	485,932
Including: Capital injected into subsidiaries by minority interests			17,207	
Cash received from borrowings	**9,365,004**	**6,372,399**	6,981,386	5,853,557
Cash received from the issue of Bonds cum Warrants	**3,961,444**	**3,961,444**	—	—
Sub-total of cash inflow	**13,369,790**	**10,377,185**	7,484,524	6,339,489
Cash paid for debt repayments	**8,896,625**	**8,376,712**	3,117,701	2,968,298
Cash payments for distribution of dividends and interest expenses	**830,481**	**668,330**	538,488	390,798
Including: Dividends and profits paid by subsidiaries to minority interests			66,259	
Sub-total of cash outflow	**9,727,106**	**9,045,042**	3,656,189	3,359,096
Net cash flow from financing activities	**3,642,684**	**1,332,143**	3,828,335	2,980,393
4. Effect of changes in foreign exchange rate on cash	**(268,535)**	**(218,452)**	8,607	(8,758)
5. Net increase in cash and cash equivalents	**5,034,411**	**3,719,385**	2,167,686	1,681,646
Add: Opening balance of cash and cash equivalents	**6,309,749**	**4,604,365**	4,142,063	2,922,719
6. Closing balance of cash and cash equivalents	**11,344,160**	**8,323,750**	6,309,749	4,604,365

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

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

ZTE CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unit: RMB in thousands

2008

	Equity attributable to equity holders of the parent								
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Total	Minority interests	Total Shareholders' equity
I. Prior year's ending balance	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247	12,888,408
Add: Changes in accounting policies arising from first-time adoption of ASBE	—	—	—	—	—	—	—	—	—
II. Current year's beginning balance	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247	12,888,408
III. Changes in current year									
(1) Net profit				1,660,199			1,660,199	251,736	1,911,935
(2) Gains/(losses) recognized directly in equity									
1. Issue of Bonds cum Warrants		580,210					580,210		580,210
2. Effect of changes of other equity holders' interest in invested entities by equity method		4,763					4,763	1,084	5,847
3. Related tax effect of items recognized directly in equity							—		—
4. Others						(182,584)	(182,584)		(182,584)
(3) Changes of paid-in capital									
1. Capital injection from shareholders							—		—
2. Equity settled share expense		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. Proposal final dividend				(402,999)	402,999		—		—
4. Others							—		—
(5) Transfer of shareholders' equity									
1. Transfer of capital reserves to share capital	383,808	(383,808)					—	—	—
2. Transfer of surplus reserves to share capital							—	—	—
3. Surplus reserves making up of losses							—	—	—
4. Others							—	—	—
IV. Current year's ending 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

2007

	Equity attributable to equity holders of the parent								
	Share capital	Capital reserves	Surplus reserves	Retained profits	Proposed final dividend	Foreign currency translation differences	Sub-total	Minority interests	Total Shareholders' equity
I. Prior year's ending balance	959,522	5,509,664	1,331,059	2,767,616	143,928	(32,880)	10,678,909	561,892	11,240,801
Add: Changes in accounting policies arising from first-time adoption of ASBE	—	—	—	85,036	—	—	85,036		85,036
II. Current year's beginning balance	959,522	5,509,664	1,331,059	2,852,652	143,928	(32,800)	10,763,945	561,892	11,325,837
III. Changes in current year									
(1) Net profit				1,252,158			1,252,158	199,293	1,451,451
(2) Gains/(losses) recognized directly in equity									
1. Issue of Bonds cum Warrants		—					—		—
2. Effect of changes of other equity holders' interest in invested entities by equity method		—					—	—	—
3. Related tax effect of items recognized directly in equity							—		—
4. Others						(32,682)	(32,682)	(3,647)	(36,329)
(3) Changes of paid-in capital									
1. Capital injection from shareholders							—	17,207	17,207
2. Equity settled share expense		297,668					297,668		297,668
3. Others		—					—	—	—
(4) Profit appropriation									
1. Appropriation to surplus reserves			33,699	(33,699)			—		—
2. Distribution to shareholders					(143,928)		(143,928)	(23,498)	(167,426)
3. Proposal final dividend				(239,880)	239,880				
4. Others							—		—
(5) Transfer of shareholders' equity									
1. Transfer of capital reserves to share capital	—	—					—	—	—
2. Transfer of surplus reserves to share capital							—	—	—
3. Surplus reserves making up of losses							—	—	—
4. Others							—	—	—
IV. Current year's ending balance	959,522	5,807,332	1,364,758	3,831,231	239,880	(65,562)	12,137,161	751,247	12,888,408

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

ZTE CORPORATION
CONSOLIDATED INCOME STATEMENT
(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
REVENUE	5	**44,293,427**	34,777,181
Cost of sales		**(29,911,471)**	(23,415,044)
Gross profit		**14,381,956**	11,362,137
Other income and gains		**1,295,715**	1,028,001
Research and development costs		**(3,994,145)**	(3,210,433)
Selling and distribution costs		**(5,400,967)**	(4,531,512)
Administrative expenses		**(2,190,037)**	(1,718,242)
Other expenses		**(1,159,682)**	(898,183)
Finance costs	7	**(690,174)**	(328,301)
Share of profits and losses of:			
Jointly-controlled entities		**—**	784
Associates		**19,877**	23,483
PROFIT BEFORE TAX	6	**2,262,543**	1,727,734
Tax	8	**(350,608)**	(276,283)
PROFIT FOR THE YEAR		**1,911,935**	1,451,451
Attributable to:			
Equity holders of the parent		**1,660,199**	1,252,158
Minority interests		**251,736**	199,293
		1,911,935	1,451,451
DIVIDEND			
Proposed final	9	**402,999**	239,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic		**RMB1.24**	RMB0.93
Diluted		**RMB1.20**	RMB0.92

ZTE CORPORATION
CONSOLIDATED BALANCE SHEET
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,892,515**	3,954,809
Deposits for land lease payments		—	28,000
Prepaid land lease payments		**508,389**	58,357
Intangible assets		**592,974**	443,777
Investments in jointly-controlled entities		**2,255**	2,255
Investments in associates		**166,178**	134,764
Available-for-sale investments		**251,148**	43,464
Long-term trade receivables	11	**612,008**	581,007
Factored long-term trade receivables		**753,568**	3,142,709
Deferred tax assets		**400,265**	352,210
Total non-current assets		**8,179,300**	8,741,352
CURRENT ASSETS			
Prepaid land lease payments		**10,527**	1,543
Inventories		**8,978,036**	7,429,503
Amount due from customers for contract works		**7,894,010**	6,540,218
Trade and bills receivables	11	**11,550,968**	8,755,207
Factored trade receivables		**1,658,941**	153,668
Prepayments, deposits and other receivables		**2,476,642**	2,792,626
Loan receivable		—	13,466
Derivative financial instruments		—	123,644
Pledged bank deposits		**136,246**	173,421
Cash and cash equivalents		**11,344,160**	6,309,749
Total current assets		**44,049,530**	32,293,045
CURRENT LIABILITIES			
Trade and bills payables	12	**15,814,005**	11,802,669
Amount due to customers for contract works		**2,965,582**	1,597,314
Other payables and accruals		**4,661,469**	4,337,861
Interest-bearing bank borrowings		**5,664,485**	4,403,424
Bank advances on factored trade receivables		**1,658,941**	153,668
Tax payable		**559,953**	399,502
Derivative financial instruments		**12,560**	7,876
Dividends payable		**22,750**	41,180
Total current liabilities		**31,359,745**	22,743,494
NET CURRENT ASSETS		**12,689,785**	9,549,551
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,869,085**	18,290,903

ZTE CORPORATION
CONSOLIDATED BALANCE SHEET (con't)
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,869,085**	18,290,903
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,292,547**	2,085,229
Bank advances on factored long-term trade receivables		**753,568**	3,142,709
Bonds cum warrants		**3,514,652**	—
Financial guarantee contract		**3,689**	3,689
Provision for retirement benefits		**36,063**	34,408
Other long-term payables		**80,000**	80,000
Deferred tax liabilities		**5,019**	56,460
Total non-current liabilities		**5,685,538**	5,402,495
Net assets		**15,183,547**	12,888,408
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**1,343,330**	959,522
Reserves		**12,503,215**	10,937,759
Proposed final dividend		**402,999**	239,880
		14,249,544	12,137,161
Minority interests		**934,003**	751,247
Total equity		**15,183,547**	12,888,408

Hou Weigui
Director

Yin Yimin
Director

ZTE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Prepared under Hong Kong Financial Reporting Standards)
31 December 2008

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 2008. 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. 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. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to 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, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC) — Int 11 HKFRS 2 — *Group and Treasury Share Transactions*

HK(IFRIC) — Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK (IFRIC) — Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation had no material impact on the financial position or results of operations of the Group.

(c) HK(IFRIC) — Int 12 *Service Concession Arrangements*

HK(IFRIC) — Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or without of operation on the Group.

(d) HK(IFRIC) — Int 14 HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC) — Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. The adoption of this interpretation had no material impact on the financial position or results of operations of the Group.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 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*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
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*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

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

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

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

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

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

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. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

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 future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS8 as from 1 January 2009.

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 will include 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 expects to adopt HKAS 1 (Revised) from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

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. 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 are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 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 hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

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 is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC) — Int 15 will replace 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*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

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 the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any 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 Balance Sheet Date* 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.

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. 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 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies 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.

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

(c) 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 balance sheet.

(d) 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 calculated as the higher of an asset's fair value less costs to sell and its value in use.

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

(e) 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.

(f) HKAS 27 *Consolidated and Separate Financial Statements:* Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(g) HKAS 28 *Investments in Associates:* Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(h) HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(i) 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 of intangible assets other than a straight-line method has been removed.

(j) HKAS 40 *Investment Property:* Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

4. SEGMENT INFORMATION

Segment information is presented by way of two segments: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

During the year, the Group changed its segment reporting in accordance with the objectives set forth in HKAS 14 Segment reporting considering the similarities of the risks and returns for different products and services, meanwhile, align with the indrustrial disclosure conventions.

The business segments previously reported in Wireless communications segment, Wireline switch and access and Optical and data communications have been merged into one new segment - Networks. The other two segments - Handsets and Telecommunications software systems and services and other products remain the same as previous. Such changes have been restated for comparative amounts in prior year.

Summary details of the business segments are as follows:

(a) The networks build-out including the wireless communications, the wireline switch and access and the optical and data communications.

(b) The handsets segment engages in the manufacture and sale of CDMA and GSM mobile phone handsets and wireless local access (PHS) handsets.

(c) The telecommunications software systems and services and other products segment represented the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

	Networks		Handsets		Telecommunications software systems, services and other products		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:								
Telecommunications system contracts	**28,963,799**	22,567,491	**—**	—	**3,127,846**	2,134,214	**32,091,645**	24,701,705
Sale of goods and services	**—**	—	**9,692,563**	7,645,126	**2,509,219**	2,430,350	**12,201,782**	10,075,476
Total	**28,963,799**	22,567,491	**9,692,563**	7,645,126	**5,637,065**	4,564,564	**44,293,427**	34,777,181
Segment results	**6,888,262**	6,002,054	**1,087,853**	663,065	**1,004,874**	165,506	**8,980,989**	6,830,625
Interest and unallocated gains							**1,295,715**	1,028,001
Unallocated expenses							**(7,343,864)**	(5,826,858)
Finance costs							**(690,174)**	(328,301)
Share of profits and losses of:								
Jointly-controlled entities							**—**	784
Associates							**19,877**	23,483
Profit before tax							**2,262,543**	1,727,734
Tax							**(350,608)**	(276,283)
Profit for the year							**1,911,935**	1,451,451
Assets and liabilities								
Segment assets	**22,811,960**	16,993,121	**5,011,544**	3,976,918	**4,432,469**	4,141,340	**32,255,973**	25,111,379
Investments in jointly-controlled entities	**—**	—	**—**	—	**—**	—	**2,255**	2,255
Investments in associates	**—**	—	**—**	—	**—**	—	**166,178**	134,764
Unallocated assets							**19,804,424**	15,785,999
Total assets							**52,228,830**	41,034,397
Segment liabilities	**3,399,777**	2,319,950	**149,854**	183,649	**808,813**	584,934	**4,358,444**	3,088,533
Unallocated liabilities							**32,686,839**	25,057,456
Total liabilities							**37,045,283**	28,145,989
Other segment information:								
Depreciation and amortisation	**491,251**	402,433	**114,127**	89,385	**97,247**	122,629	**702,625**	614,447
Capital expenditure	**1,353,308**	1,184,153	**314,210**	263,014	**267,601**	358,056	**1,935,119**	1,805,223

(b) Geographical segments

The following table presents revenue and asset information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:										
Telecommunications system contracts	**15,741,405**	12,460,366	**7,802,163**	6,677,595	**6,723,938**	3,431,340	**1,824,139**	2,132,404	**32,091,645**	24,701,705
Sale of goods and services	**1,725,024**	2,226,230	**2,630,770**	3,001,776	**2,587,185**	2,053,491	**5,258,803**	2,793,979	**12,201,782**	10,075,476
	17,466,429	14,686,596	**10,432,933**	9,679,371	**9,311,123**	5,484,831	**7,082,942**	4,926,383	**44,293,427**	34,777,181
Other segment information:										
Segment assets	**30,857,334**	28,752,355	**8,347,805**	9,653,953	**7,697,638**	1,271,222	**5,326,053**	1,356,867	**52,228,830**	41,034,397

5. REVENUE

		2008	2007
	Notes	***RMB'000***	*RMB'000*
Revenue			
Telecommunications system contracts		**32,091,645**	24,701,705
Sale of goods and services		**12,201,782**	10,075,476
		44,293,427	34,777,181

6. PROFIT BEFORE TAX

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

	Notes	**2008** *RMB'000*	2007 *RMB'000*
Cost of goods and services		**25,305,556**	21,662,725
Depreciation		**587,640**	511,982
Amortisation of intangible assets other than deferred development costs		**53,584**	50,224
Research and development costs:			
Deferred expenditure amortised**		**61,401**	52,241
Current year expenditure		**3,994,145**	3,210,433
Less: Government grants released		**(131,037)**	(70,963)
		3,924,509	3,191,711
Fair value loss on derivative financial transactions not qualifying as hedges		**128,328**	—
Impairment of trade receivables*		**472,954**	679,996
Provision for warranties**		**135,045**	61,793
Write-down/(reversal) of inventories to net realisable value**		**(53,596)**	75,098
Minimum lease payments under operating leases on land and buildings		**325,356**	388,131
Contingent rent receivable in respect of an operating lease		**(27,569)**	(24,075)
Auditors' remuneration		**6,933**	6,410
Staff costs (including directors' and supervisors' Remuneration:			
Wages, salaries, bonuses, allowances and welfare		**5,521,487**	4,671,714
Equity-settled share expense		**299,551**	297,668
Retirement benefit scheme contributions:			
Defined benefit pension scheme		**2,356**	3,087
Defined contribution pension scheme		**380,136**	217,942
		6,203,530	5,190,411
Foreign exchange differences, net*		**495,710**	62,567
Loss on disposal of items of property, plant and equipment*		**36,918**	20,405
Loss on retirements and disposals of intangible assets*		**236**	3,522

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

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

7. FINANCE COSTS

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**308,578**	213,925
Finance costs on trade receivables factored and bills discounted	**248,178**	114,376
Interest on bonds cum warrants	**133,418**	—
	690,174	328,301

8. TAX

	2008	2007
	RMB'000	*RMB'000*
Group:		
Current — Hong Kong	**698**	3,205
Current — Mainland China	**317,723**	135,778
Current — Overseas	**131,683**	222,127
Deferred	**(99,496)**	(84,827)
Total tax charge for the year	**350,608**	276,283

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the 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%.

The Company and its subsidiaries established and operating in the PRC Shenzhen Special Economic Zone (SEZ) are subject to the State Council Circular on the Implementation of the Transitional_Concession_Policies_for_Corporate_Income_Tax (Guo Fa [2007] No. 39), which provides that enterprises previously entitled to concession policies of tax rate reductions shall have a grace period of five years to comply with the requirement of the new statutory tax rate, commencing on 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to tax rates of 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 respectively. Enterprises certificated as high-tech enterprises are subject to an enterprise income tax rate of 15%. The Company has obtained the certification as a national-grade hi-tech enterprise, with which the company enjoys an enterprise income tax rate of 15%.

As a designated software enterprise, Zhongxing Software, a major subsidiary of the Company, is an approved new software enterprise entitled to enterprise income tax exemption in the first and second profitable years and 50% reduction from the third to the fifth years, commencing 1 January 2003 and ending 31 December 2007. Zhongxing Software is a national-grade hi-tech enterprise as well as an important software enterprise under the National Planning Layout to which an enterprise income tax rate of 10% shall apply.

ZTE Technology & Service Company Limited ("ZTE Technology & Service") enjoyed the tax holiday under the tax reduction and exemption notice Shen Guo Shui Nan Jian Mian (2005) No. 0098 issued by the Nanshan State Tax Bureau in Shenzhen, with an exemption from enterprise income tax in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. ZTE Technology & Service is an enterprise providing advanced technology services in Shenzhen. ZTE Microelectronics has obtained the certification of a national-grade hi-tech enterprise to which an enterprise income tax rate of 15% shall apply. Its first profitable year was 2007. In the current year, the applicable enterprise income tax rate was 18% and the company was subject to a reduced enterprise income tax of 9%.

ZTE Mobile Tech Co., Ltd. ("ZTE Mobile"), as a SEZ enterprise engages in the servicing industry, was entitled to an enterprise income tax exemption in the first profitable year and a 50% reduction of enterprise income tax in the second and third years. Commencing 1 January 2003 and ending 31 December 2007. ZTE Mobile is a national-grade hi-tech enterprise to which an enterprise income tax rate of 15% shall apply.

ZTE Microelectronics Technology Co. Ltd. ("ZTE Microelectronics"), as a manufacturing enterprise, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year under the tax reduction and exemption notice Shen Guo Shui Yan Jian Mian (2005) No. 004 issued by the Nanshan State Tax Bureau in Shenzhen. As a hi-tech enterprise of Shenzhen, ZTE Microelectronics has obtained the certification of a national-grade hi-tech enterprise to which an enterprise income tax rate of 15% shall apply. However, the current year is the fifth profitable year and the applicable enterprise income tax rate is 18%. Thus, the company was subject to a reduced enterprise income tax of 9%.

As a hi-tech enterprise of Shenzhen, Shenzhen Lead Communication Equipment Company Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply.

Xi'an Zhong Xing Software Co., Ltd. has obtained the certification of a national-grade hi-tech enterprise for the period 2008 to 2010.

Xi'an Zhong Xing Jing Cheng Communication Co., Ltd. has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

As a hi-tech enterprise of Nanjing, the ZTEsoft has obtained the certification of a national-grade hi-tech enterprise for the period 2008 to 2010. The enterprise income tax rate for the current year was 15%.

Nanjing Zhong Xing Software Co., Ltd. was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth year. Under the document Suo Hui Zi Jian [2007] No. 4 issued by the Nanjing Yuhuatai District State Tax Bureau in Shenzhen. The current year is the third profitable year and the company was subject to a reduced enterprise income tax of 12.5%. The company has obtained the certification of a national-grade hi-tech enterprise for the period 2008 to 2010.

Shanghai Zhong Xing Software Co., Ltd. has obtained the certification of a national-grade hi-tech enterprise for the period 2008 to 2010.

As a hi-tech enterprise of Shanghai, Shanghai Zhongxing Telecom Equipment Technology & Service Company, Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

As a hi-tech enterprise of Wuxi, Wuxi Zhongxing Optoelectronics Technologies Company Limited has obtained the certification of a national-grade hi-tech enterprise, to which an enterprise income tax rate of 15% shall apply from 2008 to 2010.

	2008		2007	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**2,262,543**		1,727,734	
Tax at statutory tax rate	**565,636**	**25.0**	570,152	33.0
Lower tax rate for specific provinces or enacted by local authority	**(226,254)**	**(10.0)**	(310,992)	(18.0)
Expenses not deductible for tax	**195,330**	**8.7**	172,398	10
Income not subject to tax	**(33,219)**	**(1.5)**	(129,417)	(7.5)
Tax holiday	**(72,457)**	**(3.2)**	(91,503)	(5.3)
Profits and losses attributable to jointly-controlled entities and associates	**201**	**—**	(1,869)	(0.1)
Tax losses utilised from previous years	**(135,957)**	**(6.0)**	(1,680)	(0.1)
Tax losses of subsidiaries	**57,328**	**2.5**	69,194	4.0
Tax charge at the Group's effective rate	**350,608**	**15.5**	276,283	16.0

The share of tax attributable to jointly-controlled entities and associates amounting to RMB637,000 (2007: Nil), are included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

9. DIVIDEND

	2008	2007
	RMB'000	*RMB'000*
Proposed final — RMB0.3 (2007: RMB0.25) per ordinary share	**402,999**	239,880

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

10. EARNINGS PER SHARE

Basic earnings per share amount is computed by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares in issue as adjusted by the bonus 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 and 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 shares were as follows:

	2008	2007
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to equity holders of the parent	**1,660,199**	1,252,158
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**1,343,330**	1,343,330#
Shares subject to lock-up under the share incentive scheme	**36,945**	13,434#
Bonds cum warrants*	**—**	—
Adjusted weighted average number of ordinary shares in issue	**1,380,275**	1,356,764#

* The average market price of the related ordinary shares for the year is far less than the exercise price, therefore, the exercise of the warrants is not assumed. The bonds cum warrants were ignored in the calculation of diluted earnings per share for the year ended 31 December 2008.

The number of ordinary shares in issue during 2007 had been restated to take into account the bonus issue of share during the year ended 31 December 2008 (note 37).

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills receivables	**13,865,230**	10,573,067	**16,630,122**	12,015,807
Impairment	**(1,702,254)**	(1,236,853)	**(1,370,103)**	(1,069,236)
	12,162,976	9,336,214	**15,260,019**	10,946,571
Current portion	**(11,550,968)**	(8,755,207)	**(14,700,000)**	(10,544,856)
Long-term portion	**612,008**	581,007	**560,019**	401,715

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

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**10,216,760**	8,153,438	**10,686,644**	9,005,575
7 to 12 months	**1,495,092**	954,568	**2,323,405**	980,048
1 to 2 years	**444,240**	221,696	**1,460,119**	682,223
2 to 3 years	**6,884**	6,512	**549,041**	129,680
Over 3 years	**—**	—	**240,810**	149,045
	12,162,976	9,336,214	**15,260,019**	10,946,571
Current portion of trade and bills receivables	**(11,550,968)**	(8,755,207)	**(14,700,000)**	(10,544,856)
Long-term portion	**612,008**	581,007	**560,019**	401,715

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**1,236,853**	522,811	**1,069,236**	469,228
Impairment losses recognised	**478,818**	714,042	**315,829**	600,008
Amount write off as uncollectible	**(7,553)**	—	**(14,962)**	—
Impairment losses reversed	**(5,864)**	—	**—**	—
	1,702,254	1,236,853	**1,370,103**	1,069,236

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB808,889,000 (2007: RMB572,321,000) with a carrying amount of RMB879,925,000 (2007:RMB579,236,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**4,816,412**	4,177,621	**5,114,829**	3,787,497
Less than one year past due	**5,866,359**	4,313,249	**6,864,336**	6,008,454
	10,682,771	8,490,870	**11,979,165**	9,795,951

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 ultimate holding company, a jointly-controlled entity, associates and related companies included in the above are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Subsidiaries	**—**	—	**6,183,968**	4,037,091
The ultimate holding company	**943**	8	**—**	—
Jointly-controlled entity	**—**	194	**—**	438
Associates	**21,133**	152	**19,354**	—
Related companies	**6,156**	1,085	**5,488**	8,521
	28,232	1,439	**6,208,810**	4,046,050

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**15,682,255**	11,564,337	**19,435,358**	12,385,295
7 to 12 months	**76,570**	167,747	**20,361**	18,172
1 to 2 years	**22,529**	30,528	**545**	1,220
2 to 3 years	**8,062**	12,151	**620**	5,670
Over 3 years	**24,589**	27,906	**27,409**	24,053
	15,814,005	11,802,669	**19,484,293**	12,434,410

The balances due to subsidiaries, the ultimate holding company, related companies and associates included in the above are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Subsidiaries	**—**	—	**12,503,470**	8,995,512
The ultimate holding company	**129,468**	88,023	**—**	—
Related companies	**87,226**	100,979	**152**	4,992
Associates	**43,785**	30,169	**—**	—
	260,479	219,171	**12,503,622**	9,000,504

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

The Board proposes to increase the registered capital of the Company by capitalising the capital reserve fund of the Company, pursuant to which Bonus Shares will be allotted and issued to the Shareholders on the basis of 3 Bonus Shares for every 10 Shares held by the Shareholders on the Record Date.

The registered capital of the Company will increase from RMB1,343,330,310 to RMB1,746,329,403 upon completion of the Bonus Issue. Based on a total of 1,343,330,310 Shares in issue in the Record Date, 402,999,093 Bonus Shares will be issued by the Company, of which 67,263,437 Shares are Bonus H Shares and 335,735,656 are Bonus A Shares.

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