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)

2005 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 2005 annual report.

1.2 The 2005 annual report has been considered and approved at the sixteenth meeting of the third session of the Board of Directors of the Company. Mr. He Shiyou, Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Yin Yimin, Director, to vote on his behalf. Mr. Mi Zhengkun, Independent Director, was unable to attend the meeting due to work reasons and authorised in writing Mr. Zhu Wuxiang, Independent Director, to vote on his behalf.

1.3 The financial reports of ZTE and its subsidiaries (the "Group") for the year ended 31 December 2005 were prepared in accordance with generally accepted accounting principles in the People's Republic of China ("PRC GAAP") and Hong Kong Accounting Standards ("HKASs"), 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.

1.4 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 2005 annual report.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated Name of Stock	G Zhongxing	ZTE
Stock code	000063	763
Place of listing	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong	
Postal code	518057	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

2.2 Contact Persons and Correspondence

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

3. ACCOUNTING AND BUSINESS DATA HIGHLIGHTS

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

Unit: RMB in millions

	For the year ended 31 December 2005 (current year)	For the year ended 31 December 2004 (previous year)	**Year-on-year change (%)**	For the year ended 31 December 2003
Income from principal operations	**21,575.9**	22,698.2	-4.94%	16,036.0
Total profit	**1,501.9**	1,418.8	5.86%	878.2
Net profit	**1,194.3**	1,008.9	18.38%	704.1
Net profit after extraordinary items	**1,212.9**	992.4	22.22%	672.2
Net cash flow from operating activities	**177.3**	1,644.6	-89.22%	1,141.8
	As at 31 December 2005 (end of current year)	As at 31 December 2004 (end of previous year)	**Year-on-year change (%)**	As at 31 December 2003
Total assets	**21,779.1**	20,830.0*	4.56%	15,833.4
Shareholders' equity (excluding minority interests)	**10,125.1**	9,174.4	10.36%	4,810.4

Note: The amount of total assets at the beginning of the period was changed as a result of the re-classification of opening balances to more accurately reflect the Company's financial status. Please refer to Note XI to the financial statements prepared in accordance with PRC GAAP.

3.2 Principal financial indicators prepared in accordance with PRC GAAP

	For the year ended 31 December 2005 (current year)	For the year ended 31 December 2004 (previous year)	**Year-on-year change (%)**	For the year ended 31 December 2003
Earnings per share (RMB)	**1.24**	1.05*	18.10%	1.06
Return on net assets (%)	**11.80%**	11.00%	0.8%	14.64%
Return on net assets based on net profit after extraordinary items (%)	**11.98%**	10.82%	1.16%	13.97%
Net cash flow per share from operating activities (RMB)	**0.18**	1.71	-89.47%	1.71
	As at 31 December 2005 (current year)	As at 31 December 2004 (previous year)	**Year-on-year change (%)**	As at 31 December 2003
Net assets per share (RMB)	**10.55**	9.56	10.36%	7.21
Adjusted net assets per share (RMB)	**10.55**	9.53	10.70%	6.94

Note: There was no change in share capital of the Company during 2005, and the share capital of the Company comprised 959,521,650 shares at the end of the year.

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

Extraordinary profit or loss items

√ Applicable ☐ N/A

Unit: RMB in millions

Extraordinary item	**Amount**
Subsidy income	22.7
Non-operating income	27.6
Less: non-operating expenses	16.7
Less: provision for impairment of differences in equity investment	55.5
Less: effect of income tax	(3.3)
Total	(18.6)

3.3 Financial information prepared in accordance with HKASs

3.3.1 *Major financial information of the group prepared in accordance with HKASs*

Unit: RMB in millions

	For the year ended 31 December				
	2005	2004 *(Restated)*	2003 *(Restated)*	2002 *(Restated)*	2001 *(Restated)*
Results					
Revenue	**21,575.9**	21,220.1	17,036.1	10,795.9	9,440.9
Cost of sales	**(14,101.7)**	(13,813.5)	(11,226.1)	(6,924.2)	(6,142.2)
Gross profit	**7,474.2**	7,406.6	5,810.0	3,871.7	3,298.7
Other revenue and gains	**681.6**	534.1	252.0	312.1	119.2
Research and development costs	**(1,959.5)**	(2,265.2)	(1,535.7)	(1,127.9)	(1,048.3)
Selling and distribution costs	**(3,186.4)**	(2,799.6)	(1,981.5)	(1,277.0)	(1,150.3)
Administrative expenses	**(1,095.4)**	(981.4)	(869.0)	(542.4)	(528.3)
Other operating expenses	**(128.6)**	(162.4)	(213.9)	(212.6)	10.1
Profit from operating activities	**1,785.9**	1,732.1	1,461.9	1,023.9	701.1
Finance costs	**(175.9)**	(140.4)	(171.2)	(122.3)	(160.6)
Share of profits and losses of jointly-controlled entities and associates	**(4.2)**	3.1	(3.6)	4.2	2.0
Profit before tax	**1,605.8**	1,594.8	1,287.1	905.8	542.5
Tax	**(179.8)**	(115.0)	(198.5)	(159.7)	(106.8)
Profit before minority interests	**1,426.0**	1,479.8	1,088.6	746.1	435.7
Minority interests	**(138.3)**	(207.3)	(60.3)	(42.5)	(21.7)
Net profit from ordinary activities attributable to shareholders	**1,287.7**	1,272.5	1,028.3	703.6	414.0

Unit: RMB in millions

	At 31 December				
	2005	2004	2003	2002	2001
Assets and liabilities					
Total assets	**22,464.0**	21,007.8	16,476.4	12,022.8	9,042.6
Total liabilities	**11,742.8**	11,312.2	11,649.9	8,124.8	5,847.3
Minority interests	**470.7**	478.4	226.6	215.4	134.3
Equity attributable to equity holders of the parent	**10,250.5**	9,217.2	4,599.9	3,682.6	3,061.0

3.3.2 *Major financial indicators of the group prepared in accordance with HKASs*

	2005	2004	2003	2002	2001
Basic earnings per share (RMB/share)	**1.34**	1.57	1.28	0.88	0.53
Net assets per share (RMB/share)	**11.17**	11.96	6.03	4.87	4.09
Return on net assets	**12.01%**	13.12%	21.31%	18.05%	12.96%

Note: There was no change in share capital of the Company during 2005, and the share capital of the Company comprised 959,521,650 shares at the end of the year.

3.4 Differences between PRC GAAP and HKASs

√ Applicable ☐ N/A

Unit: RMB in millions

	PRC GAAP	HKASs
Net profit	1,194.3	1,287.7
Shareholders' equity/equity attributable to equity holders of the parent	10,125.1	10,250.5

Explanation of differences: See part 10.3.1 for details.

4. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Changes in share capital

		Before change		Increase/decrease as a result of the change				After change	
		Number of shares	**Percentage (%)**	**Issue of new shares**	**Others (transfer of shareholdings)**	**Share Reform**	**Sub-total**	**Number of shares**	**Percentage (%)**
I.	Shares subject to lock-up								
1.	State-owned shares	498,341,861	51.94			-75,257,187	-75,257,187	423,084,674	44.09%
2.	State-owned legal person shares	462,272,370	48.18			-70,192,466[1]	-70,192,466	392,079,904	40.86
3.	Other domestic shares comprising:								
	Domestic legal person shares	35,043,840	3.65		-21,565,440[2]	-2,046,590[2]	-23,612,030	11,431,810	1.19
	Domestic natural person shares (including shares held by senior management of the Company)	1,025,651	0.11			256,413[1]	256,413	1,282,064	0.13
4.	Foreign shares: comprising:								
	Foreign legal person shares				21,565,440[2]	-3,274,544[1]	18,290,896	18,290,896	1.91
	Foreign natural person shares								
II.	Shares not subject to lock-up	461,179,789	48.06			75,257,187	75,257,187	536,436,976	55.91
1.	RMB ordinary shares	301,028,749	31.37			75,257,187[1]	75,257,187	376,285,936	39.22
2.	Domestic-listed foreign shares								
3.	Overseas-listed foreign shares (H shares)	160,151,040	16.69					160,151,040	16.69
4.	Others								
III.	Total numbers of shares	959,521,650	100					959,521,650	100

Note 1: Holders of non-circulating shares of the Company offered 2.5 shares for every 10 shares to the holders of A Shares of the Company whose names were registered on the register of the Company maintained at China Securities Depository & Clearing Corporation Limited, Shenzhen Branch on the date of registration for changes in shares following the implementation of the Share Reform Plan (28 December 2005). Please refer to the Revised Share Reform Plan announced by the Company on the designated website for information disclosure on 23 November 2005 for details.

Note 2: On 10 November 2005, 21,565,440 shares of the Company held by Fortune Trust & Investment Company, Ltd were transferred to Jade Dragon (Mauritius) Limited and share transfer procedures were completed. Please refer to the announcement dated 11 November 2005 published by the Company in China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times for details.

4.2 Shareholders

4.2.1 *Listing and trading dates for shares subject to lock-up*

Name of shareholders subject to lock-up	**Number of shares held that subject lock-up**	**Listing and trading date**	**Number of additional trading shares**	**Terms of lock-up**
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited ("Zhongxingxin")	358,958,824	29 December 2006 29 December 2007 29 December 2008	47,976,083 47,976,083 263,006,658	Note 1
Jade Dragon (Mauritius) Limited	18,290,896	29 December 2006	18,290,896	Note 2
Hunan Nantian (Group) Co., Ltd	11,431,810	29 December 2006	11,431,810	Note 2
Lishan Microelectronics Corporation	5,520,180	29 December 2006	5,520,180	Note 2
CASIC Shenzhen (Group) Company, Limited	5,520,180	29 December 2006	5,520,180	Note 2
China Mobile Telecommunications No. 7 Research Institute	5,520,180	29 December 2006	5,520,180	Note 2
Shaanxi Telecommunications Industrial Company	5,520,180	29 December 2006	5,520,180	Note 2
Jilin Posts and Telecommunications Equipment Company	5,520,180	29 December 2006	5,520,180	Note 2
Hebei Telecommunications Equipment Company, Limited	5,520,180	29 December 2006	5,520,180	Note 2

Note 1: The following undertaking was made by Zhongxingxin, the largest shareholder of the Company in the Revised Share Reform Plan published on the designated website for information disclosure (http://www.cninfo.com.cn) on 23 November 2005:

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

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 capitalization of capital reserve during the period from the implementation date of the Share Reform Plan to the date of sale). The proceeds from any sale by Zhongxingxin in breach of such undertaking shall be reverted to the Company's account for the benefit of all shareholders of the Company.

Note 2: 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 after implementation of the Share Reform Plan.

4.2.2 *Top ten shareholders of the Company and top ten holders of the shares of the Company that are not subject to lock-up.*

Total numbers of shareholders	Number of shareholders: the Company had 23,924 shareholders in total (of which 23,241 were holders of A shares and 683 were holders of H shares).

Top ten shareholders

Name of shareholder	**Nature of shareholders**	**Percentage shareholding (%)**	**Total no. of shares held**	**Number of shares held that are subject to lock-up**	**Number of shares pledged or locked up**
Shenzhen Zhongxingxin Telecommunications Equipment Company, Limited	State-owned shareholders	37.41	358,958,824	358,958,824	None
HKSCC Nominees Limited	Foreign shareholders	16.62	159,428,039	—	Unknown
Deutsche Bank Aktiengesellschaft	Foreign shareholders	2.63	25,237,082	—	Unknown
Jade Dragon (Mauritius) Limited	Foreign shareholders	1.91	18,290,896	18,290,896	None
Hunan Nantian (Group) Co., Ltd	Others	1.19	11,431,810	11,431,810	None
China Southern Sustaining Growth Equity Fund	Others	0.94	9,000,000	—	Unknown
Tian Yuan Equity Fund	Others	0.82	7,875,000	—	Unknown
SYWG BNP Paribas Security Investment Fund	Others	0.75	7,233,846	—	Unknown
Yulong Securities Investment Fund	Others	0.68	6,493,734	—	Unknown
Kai Yuan Equity Fund	Others	0.63	6,001,544	—	Unknown

Top ten holders of shares not subject to lock-up

Name of shareholder	**Number of shares held that are not subject to lock-up**	**Class of shares**
HKSCC Nominees Limited	159,428,039	H shares
Deutsche Bank Aktiengesellschaft	25,237,082	A shares
China Southern Sustaining Growth Equity Fund	9,000,000	A shares
Tian Yuan Equity Fund	7,875,000	A shares
SYWG BNP Paribas Security Investment Fund	7,233,846	A shares
Yulong Securities Investment Fund	6,493,734	A shares
Kai Yuan Securities Equity Fund	6,001,544	A shares
Yuyang Securities Investment Fund	5,807,811	A shares
Merchant Stock Investment Fund	5,427,830	A shares
Jing Fu Securities Investment Fund	5,011,430	A shares

Descriptions of any connected party relationships or concert party relationships among the above top ten shareholders

1. Among the Company's top ten holders of shares not subject to lock-up, China Southern Sustaining Growth Equity Fund, Tian Yuan Equity Fund and Kai Yuan Equity Fund are managed by the same fund manager, China Southern Fund Management Co., Ltd.; Yulong Securities Investment Fund and Yuyang Securities Investment Fund are managed by the same fund manager, Boshi Fund Management Co., Ltd.

2. There were no connected party relationships between Zhongxingxin, the largest shareholder of the Company, and other top ten shareholders and top ten holders of shares not subject to lock-up, or concert party relationships, as defined under the "PRC Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies".

3. Save for the above, the Company is not aware of any connected party relationships among other top ten shareholders and top ten holders of shares not subject to lock-up, or whether they are acting in concert, as defined under the "PRC Measures for the Management of Information Disclosure for Changes in Shareholding of Shareholders of Listed Companies".

	Name of shareholder	**Agreed period of shareholding**
Agreed period of shareholding for strategic investors or legal persons participating in the placing of new shares	N/A	N/A

4.3 Controlling shareholder and de facto controller

4.3.1 *Changes in controlling shareholder and de facto controller*

☐ Applicable √ N/A

4.3.2 *Details of controlling shareholder and de facto controller*

4.3.2.1 *Name of controlling shareholder of the Company: Shenzhen Zhongxingxin Telecommunications Equipment Company ("Zhongxingxin")*

Legal representative : Zhang Taifeng
Date of incorporation : 29 April 1993
Registered capital : RMB10,000,000

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

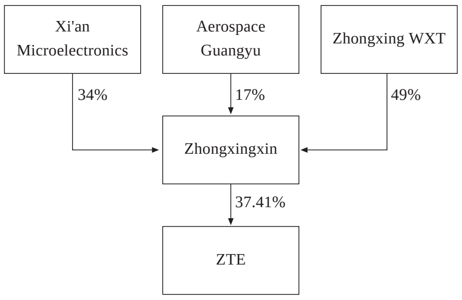
4.3.2.2 *The controlling shareholders (or de facto controller) of the Company's controlling shareholder*

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

- Xi'an Microelectronics, a subsidiary of China Aerospace Times Electronics Corporation, is a large state-owned research institute, which was established in 1965 with its establishment expenses amounting to RMB198,530,000. The legal representative of the institute is Zhang Junchao. It is the only specialised 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 (Group) Company Limited, is a wholly state-owned enterprise established on 20 March 1984. The legal representative is Xie Weiliang and the registered capital amounts to RMB17,950,000. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), warehousing.
- Zhongxing WXT is a private high-technology enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10,000,000. The scope of business includes the development and production of telecommunications and transmission equipment, associated equipment, computer and peripheral equipment.

4.3.3 ***Diagram of shareholding and controlling relationship between the Company and the de facto controller:***



5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Gender	Age	Title	Term of office	No. of A shares held at beginning of the reporting period (shares)	Change during the reporting period (shares)	No. of A shares held at end of the reporting period (shares)	Annual remuneration (RMB10,000)	Whether remuneration is received from shareholder entities or other connected entities
Director									
Hou Weigui	Male	64	Chairman of the Board of Directors	2/2004–2/2007	175,680	+43,920	219,600	69.52	No
Wang Zongyin	Male	61	Vice Chairman of the Board of Directors	2/2004–2/2007	0	0	0	6.00	Yes
Xie Weiliang	Male	50	Vice Chairman Of the Board of Directors	2/2004–2/2007	0	0	0	6.00	Yes
Zhang Junchao	Male	52	Director	2/2004–2/2007	0	0	0	6.00	Yes
Li Juping	Male	50	Director	2/2004–2/2007	0	0	0	6.00	Yes
Dong Lianbo	Male	49	Director	2/2004–2/2007	0	0	0	6.00	Yes
Yin Yimin	Male	42	Director, President	2/2004–2/2007	97,344	+24,336	121,680	113.10	No
Shi Lirong	Male	42	Director, Senior Vice President	2/2004–2/2007	76,608	+19,152	95,760	78.12	No
He Shiyou	Male	39	Director, Senior Vice President	2/2004–2/2007	72,806	+18,201	91,007	63.89	No
Zhu Wuxiang	Male	40	Independent Director	2/2004–2/2007	0	0	0	6.00	No
Chen Shaohua	Male	44	Independent Director	2/2004–2/2007	0	0	0	6.00	No
Qiao Wenjun	Male	35	Independent Director	2/2004–2/2007	0	0	0	6.00	No
Mi Zhengkun	Male	60	Independent Director	2/2004–2/2007	0	0	0	6.00	No
Li Jin	Male	38	Independent Director	6/2004–2/2007	0	0	0	6.00	No
Supervisor									
Zhang Taifeng	Male	64	Chairman of the Supervisory Committee	2/2004–2/2007	97,344	+24,336	121,680	69.52	No
Wang Wangxi	Male	39	Supervisor	2/2004–2/2007	0	0	0	62.35	No
He Xuemei	Female	35	Supervisor	2/2004–2/2007	0	0	0	29.86	No
Qu Deqian	Male	44	Supervisor	5/2005–2/2007	8,016	+2,004	10,020	0	Yes
Wang Yan	Female	41	Supervisor	5/2005–2/2007	0	0	0	0	Yes
Senior management									
Wei Zaisheng	Male	43	Senior Vice President, Chief Financial Officer	2/2004–2/2007	76,608	+19,152	95,760	77.04	No
Xie Daxiong	Male	42	Senior Vice President	2/2004–2/2007	35,871	+8,968	44,839	75.21	No
Zhou Susu	Female	51	Senior Vice President	2/2004–2/2007	76,608	+19,152	95,760	68.31	No
Tian Wenguo	Male	37	Senior Vice President	2/2004–2/2007	19,440	+4,860	24,300	87.06	No
Fang Rong	Female	41	Vice President	2/2004–2/2007	33,108	+8,277	41,385	74.03	No
Chen Jie	Female	47	Vice President	2/2004–2/2007	75,600	+18,900	94,500	133.45	No
Ding Mingfeng	Male	36	Vice President	2/2004–2/2007	49,405	+12,351	61,756	66.17	No
Zhang Chuanhai	Male	40	Vice President	2/2004–2/2007	7,920	+1,980	9,900	81.25	No
Ye Weimin	Male	39	Vice President	2/2004–2/2007	27,043	+6,761	33,804	81.96	No
Qiu Weizhao	Male	42	Vice President	2/2004–2/2007	0	0	0	73.69	No
Ni Qin	Male	46	Vice President	2/2004–2/2007	63,072	+15,768	78,840	71.49	No
Zhao Xianming	Male	39	Vice President	2/2004–2/2007	0	0	0	74.34	No
Xu Huijun	Male	32	Vice President	2/2004–2/2007	0	0	0	71.04	No
Feng Jianxiong	Male	32	Secretary to the Board of Directors	2/2004–2/2007	0	0	0	47.50	No

Note 1: The increase of the shares held by the above Directors, Supervisors and senior management is caused by the Shares Reform. Please refer to Note 1 of the table headed "Changes in share capital" under Section 4.1 of this annual report summary.

Note 2: Mr. Tan Shanyi and Mr. Tan Zhenhui, Directors who resigned during the year, each received a Director's allowance of RMB25,000 (the standard amount of allowance for Directors is RMB5,000 per month) during 2005. Supervisors Ms. Li Huanru, Ms. Cui Hongwei, Mr. Cao Quansheng and Mr. Li Jinhu each received a Supervisor's allowance of RMB20,000 in 2005 (The standard amount of allowance for Supervisors is RMB4,000 per month.)

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

The interests in shares of the Company held by Directors, Supervisors and the President of the Company as at 31 December 2005 are set out in Section 5.1.

Save as disclosed above, as at 31 December 2005, 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 2005, none of the Directors, Supervisors or the President of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

6. REPORT OF THE BOARD OF DIRECTORS

6.1 Discussion and analysis of overall operations during the reporting period

6.1.1 *Review of Results*

Business of the Group

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

Financial Results

Please refer to the financial statements appended to this annual report summary for the results of the Group for the year ended 31 December 2005 prepared in accordance with PRC GAAP and HKASs.

Business Review

Capital expenditure in China's telecommunications sector declined 4.8% to RMB203.34 billion in 2005, as compared to the previous year. The sector, however, maintained its growth trend in terms of other indicators. Revenue generated from telecommunications operations increased 11.7% to RMB579.90 billion, on the back of continuous growth in operating revenue and the number of users. As at the end of 2005, there were 393 million mobile phone users and 350 million fixed-line users in China (based on data available from the Ministry of Information Industry).

In terms of telecommunications network operations, the GSM network was running smoothly, while capital expenditure in CDMA and PHS networks declined as carriers adopted a strategy of selective development. Meanwhile, networks supported by new technologies such as NGN were gradually replacing traditional wireline networks. The value-added services sector was developing rapidly; while the industry chain (from systems to terminals) for 3G networks came into shape following favorable results in the trial implementation of 3G standards. Overall, the market for telecommunications systems became increasingly competitive, given growing maturity of the market, changing pattern of market competition and revised business models of carriers.

Overview of the global telecommunications industry in 2005

Globally, the telecommunications sector maintained its growing trend during 2005. According to statistics from Gartner, operating revenue of the global telecommunications sector amounted to USD1,586.2 billion, representing a 9.84% increase as compared to 2004. Capital expenditure of the global telecommunications sector amounted to USD121.8 billion, representing a 7.75% increase as compared to 2004. Latin America, North America and Africa were the fastest-growing markets in terms of investments by carriers in telecommunications equipment.

Operating results of the Group for 2005

The Company achieved the following operating results with persistent efforts of the management in implementing development strategies laid down by the Board of Directors, despite a relatively unfavorable development capital expenditure profile prevailing in the domestic market and the fact that our international development initiatives remained in a critical start-up stage.

The domestic market:

Domestically, the Group enhanced its leading position in the industry in 2005 on the back of strong sales and distinct competitive edge in NGN, products for fixed line network intelligence, IPTV and GoTa based on our profound understanding of the telecommunications industry and its service providers, effectively mitigating the adverse impact of the substantial decline in CDMA and PHS investments.

The international market:

On the international front, significant progress was achieved in our efforts to build regional platforms around the globe, with coverage of all major markets basically completed. Outstanding market development efforts among mainstream multinational carriers resulted in business partnerships with carriers including France Telecom, Hutchison Telecom and Millicom involving strategic product areas of the Group such as systems and handsets. While such partnerships held out strong potential for development in their own right, they also opened up opportunities for the introduction of other products of the Group to the markets of developed countries.

Wireless communications products

We made progress in each of the TD-SCDMA, CDMA2000 and WCDMA systems to attain leading industry standards. With products fully capable of matching the requirements of large-scale commercial applications, we have laid down solid foundations and are fully prepared for the construction of a 3G network in China, which is set to commence in the near future. The Group achieved outstanding results in the tests for each of the three systems. Large-scale applications of our WCDMA core networks were launched in more than ten countries and regions, including Nigeria, Sri Lanka and Bangladesh.

There was significant growth in the delivery of our GSM products, with breakthroughs in the scale of operations in the Eastern European and Central American markets and progress in establishing our presence in South America, on top of operations in our traditional markets of Africa and South Asia. Stable profitability from our PHS products was maintained on the back of ongoing cost reductions. Having passed technical assessment of the Ministry of Information Industry and was awarded the "Major Technology Inventions in the PRC Information Industry Award," our GoTa products became the first products in respect of which intellectual property licenses were granted by a PRC company to its foreign counterparts.

Switch and access products

Investments in traditional switch and access products experienced a significant decline in 2005. The Company followed closely the changing focus of fixed line carriers around the world to launch its "fixed line network intelligence" solution, providing carriers with a conceptual framework and signpost for the construction of fixed line networks as well as facilitating the development of other products.

Data communications

The Group provides a variety of data communications equipment such as NGN, IPTV, DSL systems, routers, routing switches and wireless access data products. By undertaking the construction of the NGN project of China Telecom which covered 31 provinces throughout the nation, the Group tapped the high-end market with related products including business platforms, data, transmission and access products in 2005. We secured leadership for our IPTV products in the domestic market. Our optical communications products passed the ASON test of China Telecom during the year, while major breakthroughs were achieved in the bulk-volume, ultra-length transmission technology for our DWDM products.

Handsets

We continued to increase our investment in the research and development of handset terminal products in 2005 and launched a series of handsets with high performance to price ratios. Meanwhile, we were gradually developing core technologies for high-end handset products as additional resources were devoted to the research and development of high-end intelligent handsets and 3G handsets. Sales in the international market were growing rapidly with access to numerous countries and regions around the world. The Group enhanced the research and development of 3G handsets and data cards and secured exports of such products to Europe.

Miscellaneous

Sales of business products grew rapidly in 2005 as carriers generally increased their investments in value-added services. As a major supplier of business products in China, ZTE has launched products in all aspects of value-added services. In 2005, the Group launched customised solutions for integrated business information platforms, electronic transactions, 3G services and messaging gateways.

6.2 Principal operations analyzed by industry and product segments (under PRC GAAP)

Major industries and products accounting for more than 10% of revenue from principal operations or profit from principal operations (under PRC GAAP)

	Revenue from principal operations (RMB in millions)	**Cost of principal operations (RMB in millions)**	**Profit margin of principal operations (%)**	**Year-on-year increase/ decrease in revenue from principal operations (%)**	**Year-on-year increase/ decrease in cost of principal operations (%)**	**Year-on-year increase/ decrease in profit margin of principal operations (%)**
By industry						
Manufacturing of communications systems	21,575.9	13,944.8	35.4	-4.9	-3.0	-1.3
By product						
Wireless communications systems	8,930.8	4,930.4	44.8	-7.4	-8.4	0.7
Wireline switch and access systems	2,752.6	1,240.3	54.9	-3.5	5.2	-3.8
Optical and data communications systems	3,353.0	2,665.2	20.5	30.9	37.4	-3.8
Handsets	4,333.1	3,575.0	17.5	-28.0	-30.6	3.1
Telecommunication software systems, services and other products	2,206.4	1,533.9	30.5	35.4	114.5	-25.6

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

Region	**Revenue from principal operations (RMB in millions)**	**Year-on-year increase/ decrease in revenue from principal operations**
The PRC	13,874.3	-22.1
Asia (excluding the PRC)	4,568.7	73.6
Africa	2,835.4	75.2
Other regions	297.5	-53.9
Total	21,575.9	-4.9

Purchases from and sales to customers

Purchases from top five suppliers		**Sales to top five customers**	
Total amount (RMB in millions)	**As a percentage of total purchases**	**Total amount (RMB in millions)**	**As a percentage of total sales**
2,320.9	20.9%	10,124.1	46.9%

6.4 Management discussion and analysis on financial data of the Group prepared in accordance with HKASs

The financial data below are extracted from the Group's audited financial statements prepared in accordance with HKASs. 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

	2005	2004
Revenue		
Wireless communications	**8,930.8**	8,786.4
Wireline switch and access	**2,752.6**	2,598.6
Optical and data communications	**3,353.0**	2,335.3
Handsets	**4,333.1**	6,014.9
Telecommunications software systems, services and other products	**2,206.4**	1,484.9
Total	**21,575.9**	21,220.1
Cost of sales	**(14,101.7)**	(13,813.5)
Gross profit	**7,474.2**	7,406.6
Other revenue and gains	**681.6**	534.1
Research and development costs	**(1,959.5)**	(2,265.2)
Selling and distribution costs	**(3,186.4)**	(2,799.6)
Administrative expenses	**(1,095.4)**	(981.4)
Other operating expenses	**(128.6)**	(162.4)
Profit from operating activities	**1,785.9**	1,732.1
Finance costs	**(175.9)**	(140.4)
Share of profits and losses of jointly-controlled entities and associates	**(4.2)**	3.1
Profit before tax	**1,605.8**	1,594.8
Tax	**(179.8)**	(115.0)
Profit before minority interests	**1,426.0**	1,479.8
Minority interests	**(138.3)**	(207.3)
Net profit from ordinary activities attributable to equity holders of the parent	**1,287.7**	1,272.5
Dividends	**239.9**	239.9
Earnings per share — basic	**RMB1.34**	RMB1.57

Revenue

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

	2005		2004	
Product segment	**Revenue**	**Percentage of revenue**	Revenue	Percentage of revenue
Wireless communications	**8,930.8**	**41.4%**	8,786.4	41.4%
Wireline switch and access	**2,752.6**	**12.8%**	2,598.6	12.2%
Optical and data communications	**3,353.0**	**15.5%**	2,335.3	11.0%
Handsets	**4,333.1**	**20.1%**	6,014.9	28.4%
Telecommunications software systems, services and other products	**2,206.4**	**10.2%**	1,484.9	7.0%
Total	**21,575.9**	**100.0%**	21,220.1	100.0%

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

Unit: RMB in millions

	2005		2004	
Region	**Revenue**	**Percentage of revenue**	Revenue	Percentage of revenue
The PRC	**13,874.3**	**64.3%**	16,644.5	78.5%
Asia (excluding the PRC)	**4,568.7**	**21.2%**	2,459.9	11.6%
Africa	**2,835.4**	**13.1%**	1,513.1	7.1%
Other regions	**297.5**	**1.4%**	602.6	2.8%
Total	**21,575.9**	**100.0%**	21,220.1	100.0%

The Group's revenue in 2005 increased 1.7% to RMB21,575.9 million, as compared to RMB21,220.1 million in 2004. The increase was mainly attributable to growth in revenue from the optical and data communications segment and the telecommunications software systems, services and other products segment, which was partially offset by the decrease in revenue from handset sales. The Group's international business maintained rapid growth in 2005 with sales revenue rising 68.3% to RMB7,701.6 million as compared to RMB4,575.6 million in 2004, although the growth was partially offset by the decline in domestic sales revenue due to a decrease in capital expenditure of by domestic carriers and who were in the process of adjusting their investment structure.

The Group's revenue from the wireless communications business increased 1.6% to RMB8,930.8 million in 2005, as compared to RMB8,786.4 million in 2004. The increase was mainly attributable to solid increases in domestic and international sales of CDMA and domestic sales of GSM systems, partially offset by the declining PHS revenue resulting from the reduced investments in PHS network construction by domestic carriers who were in the process of re-aligning their investment structure.

The Group's revenue from the wireline switch and access segment increased 5.9% to RMB2,752.6 million in 2005, as compared to RMB2,598.6 million in 2004. The growth was mainly attributable to increased sales of certain products that were reclassified to this segment from "telecommunications software systems, services and other products" during the year to more accurately reflect product classification based on actual applications. The growth was also attributable to the growth in international sales revenue of the wireline switch and access business, though this was partially offset by the decline in sales revenue from the domestic market.

The Group's revenue from the optical and data communications segment increased 43.6% to RMB3,353.0 million in 2005, as compared to RMB2,335.3 million in 2004. The growth was mainly attributable to considerable growth in the interactional sales coupled with solid increase in domestic market share for optical products, while growth in sales revenue was also recorded for wireless access data products.

The Group's revenue from the handsets business amounted RMB4,333.1 million in 2005, down from RMB6,014.9 million in 2004. The decrease was mainly attributable to substantial reductions in PHS investment by PRC carriers in 2005, resulting in a notable decrease in the Group's sales of PHS handsets as compared to the previous year. On the other hand, the Group recorded its first sales revenue from 3G handsets in 2005.

The Group's revenue from the telecommunications software systems, services and other products segment increased 48.6% to RMB2,206.4 million in 2005, as compared to RMB1,484.9 million in 2004, benefiting mainly from sales growth in new innovative products such as fixed terminals and IPTVs. Meanwhile, sales revenue generated by software products as a separate item dropped as most of these products were bundled with system equipment in sales during the year. Moreover, certain products originally in this segment that registered sales growth were reclassified during the year such that their sales revenue was accounted for under the segment of "wireline switch and access" to more accurately reflect product classifications based on actual applications.

Cost of sales and gross profit

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

Unit: RMB in millions

	2005		2004	
Product segment	**Cost of Sales**	**Percentage product segment turnover**	Cost of Sales	Percentage product segment turnover
Wireless communications	**5,021.6**	**56.2%**	4,973.2	56.6%
Wireline switch and access	**1,260.9**	**45.8%**	1,105.6	42.5%
Optical and data communications	**2,697.7**	**80.5%**	1,768.6	75.7%
Handsets	**3,575.0**	**82.5%**	5,286.2	87.9%
Telecommunications software systems, services and other products	**1,546.5**	**70.1%**	679.9	45.8%
Total	**14,101.7**	**65.4%**	13,813.5	65.1%

Unit: RMB in millions

Product segment	2005 Gross Profit	2005 Gross profit margin	2004 Gross Profit	2004 Gross profit margin
Wireless communications	**3,909.2**	**43.8%**	3,813.2	43.4%
Wireline switch and access	**1,491.7**	**54.2%**	1,493.0	57.5%
Optical and data communications	**655.3**	**19.5%**	566.7	24.3%
Handsets	**758.1**	**17.5%**	728.7	12.1%
Telecommunications software systems, services and other products	**659.9**	**29.9%**	805.0	54.2%
Total	**7,474.2**	**34.6%**	7,406.6	34.9%

The Group's gross profit rose slightly to RMB7,474.2 million in 2005 from RMB7,406.6 million in 2004. The Group's gross profit margin dropped slightly to 34.6% from 34.9% in 2004 due primarily to the decrease in the gross profit margin of the optical and data communications segment, the telecommunications software systems and services, wireline switch and access products, which was largely offset by the increase in the gross profit margin of handset products.

Gross profit margin of the Group's wireless communications business rose slightly to 43.8% in 2005 from 43.4% in 2004 as the increase in the sales of higher-margin CDMA systems as percentage to revenue was largely offset by declining gross profit margin for GSM. Growth in international sales of CDMA systems, which generally commanded a higher gross profit margin, more than offset the slight decline in its domestic sales to result in an improved overall gross profit margin for the product. The gross profit margin of GSM system products lost considerable ground due to intense competition in the global market.

Gross profit margin in the Group's wireline switch and access segment dropped to 54.2% in 2005 from 57.5% in 2004 as a result of increasing market competition and the reclassification of certain lower-margin products to this segment from "telecommunications software systems, services and other products" during the year

Gross profit margin in the Group's optical and data communications business dropped to 19.5% in 2005 from 24.3% in 2004, as gross profit margin for optical communications products decreased as gross profit margin for optical communications products and the price of DSL products experienced a notable decline amid intense market competition in 2005.

Gross profit margin in the Group's handsets segment rose to 17.5% in 2005 from 12.1% in 2004 in tandem with rising gross profit margin for CDMA handsets and PHS handsets. International sales of CDMA handsets increased further as the Group made further inroads in the international market. Gross profit margin for PHS handsets improved despite decreased sales in 2005 as compared to 2004 owing to reduced investments by carriers, due to effective cost reductions resulting from ongoing upgrades in technology and production processes. Nevertheless, such growth was partially offset by decreased gross profit margin for GSM handsets owing to rapid price concessions in an intensely contested domestic GSM market.

Gross profit margin in the Group's telecommunications software systems, services and other products segment dropped to 29.9% in 2005 from 54.2% in 2004. This decline was mainly attributable to increased sales of low-margin products coupled with decreased sales revenue from high-margin products such as software and services.

Other revenue and gains

Other revenue and gains of the Group increased 27.6% to RMB681.6 million in 2005 from RMB534.1 million in 2004. The increase was mainly attributable to the increase in government subsidies for technology projects and VAT subsidy income.

Research and development costs

The Group continued to commit resources to research and development with additional investments in certain areas, although there was a change in the structure of investment. In accordance with HKASs, the development costs of certain products were capitalized by the Group. Moreover, the efficiency of research and development was improved with the Group's articulate measures in consolidating the core technical platform for research and development, contributing to the decrease in costs for the period. Research and development costs accounted for 9.1% of revenue from principal operations in 2005, as compared to 10.7% in 2004.

Selling and distribution costs

The Group's selling and distribution costs in 2005 amounted to RMB3,186.4 million, representing an increase of 13.8% comparing to RMB2,799.6 million in 2004. The increase was mainly attributable to the increase in overseas travel and transport expenses and staff costs due to growing international sales and the development of overseas sales platforms, which was partially offset by a significant reduction in sales commission expenses. Selling and distribution costs accounted for 14.8% of revenue from principal operations in 2005, as compared to 13.2% in 2004.

Administrative expenses

The Group's administrative expenses in 2005 amounted to RMB1,095.4million, representing an increase of 11.6% comparing to RMB981.4 million in 2004. The increase was mainly attributable to the expansion in operation of its subsidiaries. Administrative expenses accounted for 5.1% of revenue from principal operations in 2005, as compared to 4.6% in 2004.

Other operating expenses

Other operating expenses of the Group decreased 20.8% to RMB128.6 million in 2005 from RMB162.4 million in 2004. The decrease mainly reflected reductions in bad debt provisions as a result of the revised method for bad debt provision for the Group's accounts receivable in accordance with requirements of Hong Kong Accounting Standard HKAS 39 (see note 2 to the financial statements), although such reductions were partially offset by the increase in goodwill impairment and exchange losses.

Profit from operating activities

The Group's profit from operating activities increased 3.1% from RMB1,732.1 million in 2004 to RMB1,785.9 million in 2005, while the profit margin from operating activities rose to 8.3% in 2005 from 8.2% in 2004, which was mainly attributable to the decline in research and development costs, which were partially offset by the increases of selling and distribution costs and administrative expenses.

Finance costs

The Group's finance costs increased 25.3% to RMB175.9 million in 2005 from RMB140.4 million in 2004, mainly as a result of additional expenses associated with increased factoring of accounts receivable of the Group to shorten revenue of working capital. The increase was partially offset by lower financing costs as the balance of interest-bearing bank loans declined.

Tax

The Group's tax expenses increased 56.3% to RMB179.8 million in 2005 from RMB115.0 million in 2004 and its effective tax rate increased to 11.2% in 2005 from 7.2% in 2004, reflecting mainly the increase in overseas tax expenses from the Group's growing international sales.

Minority interests

The Group's minority interests decreased 33.3% to RMB138.3 million from RMB207.3 million in 2004. This was primarily attributable to the decrease in minority shareholdings in equity. Minority interests as a percentage of profit before minority interests decreased to 9.7% in 2005 from 14.0% in 2004.

Gearing ratio and the basis of calculation

The Group's gearing ratio for 2005 was 6.0%, down 7% from 13% in 2004. The decrease was mainly attributable to the decrease in interest-bearing loans and the increase in equity. The gearing ratio represented outstanding amounts under total interest-bearing loans as a percentage of total capital.

Liquidity and capital resources

In 2005, the Group's development funds were financed mainly by the proceeds form the Company's H share offering cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities when due, capital expenditure, interest and dividend payments and other unforeseeable cash requirements.

Cash and cash equivalents of the Group as of 31 December 2005 amounted to RMB5,397.2 million.

Cash flow data

Unit: RMB in millions

	2005	2004
Net cash inflow/(outflow) from operating activities	**(285.9)**	1,240.0
Net cash outflow from investing activities	**(1,067.3)**	(620.6)
Net cash inflow/(outflow) from financing activities	**(735.0)**	3,314.2
Net increase/(decrease) in cash and cash equivalents	**(2,088.2)**	3,933.6
Cash and cash equivalents at the end of the year	**5,397.2**	7,509.2

Operating activities

Net cash outflow from the Group's operating activities amounted to RMB285.9 million in 2005 compared to net cash inflow amounted to RMB1,240.0 million in 2004, comprising mainly an increase of RMB1,937.1 million in amounts due customers for contract work and a decrease in contract work amounts payable of RMB1,585.3 million as telecommunications system construction project works were completed ahead of progress bill payments in consequence of more favorable business terms offered by the Group to customers; a decrease in operating profit before working capital changes from RMB2,413.8 million in 2004 to RMB2,222.9 million in 2005 because of increased selling and distribution costs and administrative expenses during the year but partially offset by an increase in trade and bills receivables due to delay in payment resulting from higher credit limit granted to the Group by its suppliers; and an increase in prepayments and other receivables of RMB526.4 million owing to an external loan granted by the Group in 2005. In 2005, the Group's receivables revenue was 4.0 compared to 3.8 in 2004. Inventory revenue was 7.1 compared to 9.1 in 2004. Payables revenue was 2.7 compared to 3.1 in 2004.

Investing activities

Net cash outflow from the Group's investing activities in 2005 amounted to RMB1,067.3 million, as compared to RMB620.6 million in 2004. The cash outlay in 2005 was mainly used in business and production expansion, comprising RMB641.9 million for the purchase of machinery and equipment, testing instruments, computers and replacements of and additions to office equipment, RMB161.9 million for the construction of the research and development centre in Shenzhen and RMB206.8 million for the purchase of software and other intangible assets.

Financing activities

Net cash outflow from the Group's financing activities in 2005 amounting to RMB735.0 million, as compared to net cash inflow of RMB3,314.2 million in 2004, was mainly used in the repayment of bank loans of RMB869.0 million.

Capital expenditure

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

Unit: RMB in millions

Capital expenditure	**2005**	2004
Purchases of fixed assets and additions to construction in progress	**803.8**	647.0

The Group's capital expenditure in 2005 amounting to RMB803.8 million was mainly used to complete the construction of the ZTE research and development center in Shenzhen and purchase other equipment and facilities.

Indebtedness

Unit: RMB in millions

	As at 31 December	
	2005	2004
Secured bank loans	**47.7**	361.6
Unsecured bank loans	**632.0**	1,085.4

Unit: RMB in millions

	As at 31 December	
	2005	2005
Short-term bank loans	**599.7**	421.7
Long-term bank loans	**80.0**	1,025.3

Credit facilities available to the Group included long-term and short-term bank loans. Long-term loans were mainly used for capital expenditures, while short-term loans were mainly used as working capital. The Group's long-term loans were subject to interest at fixed rates. The Group's borrowings were mainly denominated in RMB, with some loans which were denominated in US dollars.

The Group's bank loans in 2005 decreased as a result of the increase in available cash balances as the proceeds from the H share offering were applied in the Group's operations.

Contractual obligations

Unit: RMB in millions

	As at 31 December 2005			
	Total	**Less than one year**	**Two to five years**	**More than five years**
Bank loans	**679.7**	**599.7**	**80.0**	**—**
Operating lease obligations	**183.4**	**97.0**	**79.1**	**7.3**

Contingent Liabilities

Unit: RMB in millions

	As at 31 December 2005	2004
Discounted bills	—	440.9
Factored trade receivables	**438.5**	691.7
Guarantees given to banks in respect of performance bonds	**2,823.8**	1,626.1
Total	**3,262.3**	2,758.7

Capital Commitments

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

Unit: RMB in millions

Land and buildings	As at 31 December 2005	2004
Contracted, but not provided for	**231.6**	282.4
Investment in an associate		
Contracted but not provided	**21.1**	—

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 2005 are set out in notes 18, 19 and 20 to the financial statements prepared in accordance with HKASs.

Prospects of new business development

Details of the prospects of new business development of the Group are set out in Section 6.10 of this summary of annual report.

Employees

Details of the number of employees, remuneration, remuneration policy, bonus and training programs of the Group as at 31 December 2005 are set out in the section headed "Directors, Supervisors, Senior Management and Employees" and the section headed "Corporate Governance" in the 2005 Annual Report.

Pledge of assets

Details of pledge of the Group's assets as at 31 December 2005 are set out in note 31 to the financial statements prepared under HKASs.

Plans for significant investment or acquisition of capital assets

Details of the Group's significant investments and their performance and prospects as at 31 December are set out in Sections 6.5, 6.6 and 6.10 of this summary of annual report.

Details of plans for significant investment or acquisition of capital assets are set out in Section 7.1 of this annual report summary.

Market risks

Cash flow interest rate risk

The Group's exposure to cash flow interest rate risk is minimal.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 35% (2004: 22%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 70% (2004: 65%) of costs are denominated in the unit's functional currency.

The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contract. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

6.5 Use of proceeds

√ Applicable ☐ N/A

As at the end of the reporting period, utilisation of the proceeds from the H share offering by the Company was as follows:

Unit: in RMB10,000

Gross amount of proceeds	354,217.8
Gross amount of proceeds utilised during the year	213,704.8
Gross amount of proceeds utilised on an accumulated basis	329,736.7

Projects committed	**Proposed amount of investment**	**Any changes to project**	**Actual amount of proceeds invested**	**Earnings generated**	**Whether project schedule has been met**	**Whether expected earnings has been attained**
IP switching platforms for mobile communications	24,039	No	24,039	See below	Yes	Yes
Integrated mobile broadband service systems	22,525	No	16,301.3	See below	Yes	Yes
High speed packet mobile communication base station systems	23,820	No	16,254	See below	Yes	Yes
Intelligent wireless integrated access systems	12,890.1	No	12,890.1	See below	Yes	Yes
Core routers	20,838	No	13,179.6	See below	Yes	Yes
NGN systems	20,118	No	20,118	See below	Yes	Yes
Automated optical switching network systems	17,457	No	14,424	See below	Yes	Yes
Sub-total	141,687.1	—	117,206	—	—	—
Overseas operations	212,530.7	—	212,530.7	See Note	Yes	Yes
Total	354,217.8	—	329,736.7	—	—	—

Note: In relation to proceeds from the H share offering not currently utilised, the Company applied funds that were temporarily idle as working capital subject to the progress of projects, with a view to enhancing the efficiency of fund application by reducing the demand for bank loans and hence financing costs. The Company will appropriate funds for relevant projects in strict accordance with project schedules.

Project progress and revenue form the projects are set out as follows:

High-speed packet mobile communications base stations

The research and development work for the project was progressing smoothly with the development of various advanced functions, including high-speed transmission for both forward and reverse channels. Currently, ZTE's CDMA2000 1xEVDO products are being put to large-scale commercial application in global markets, such as Asia-Pacific, Africa, Northern Europe and South America. On the back of CDMA2000 1xEVDO trial stations operated on a in conjunction with domestic carriers, ZTE is expecting to launch within this year the CDMA2000 1xEVDO Revision A commercial system, an improved model that promises superior performance.

Integrated mobile broadband service systems

Research and development for integrated service platforms was basically completed to cover services such as network paging, network conferences, one-touch dialing, caller tunes, soft terminal communications and others, with related products being extensively used in the networks of domestic carriers. Such products were also being used by telecommunications carriers in Malaysia, the Philippines and Pakistan to provide value-added services. In future, the integrated platform will be able to support services on PSTN, PHS, GSM, CDMA, 3G and NGN networks simultaneously. With such competitive edge in technology, the project should enjoy excellent prospects.

Automated optical switching network systems

The first stage of research and development for the project had been completed and product samples had passed the performance testing for the inspection and acceptance process. The Company is currently conducting research and development on the commercialisation of automated optical switching network systems employing leading advanced technologies domestically. Apart from enhancing the operability and management of optical networks, automated optical switching network technologies also allow ease in incorporating new services to cater to future requirements in telecommunications. Prospects are promising as carriers are expected to deploy automated optical switching systems in the coming years, first in the backbone networks and ultimately extending to urban and regional networks.

IP switching platforms for mobile communications

Research and development of project was progressing as scheduled. The IP switching platforms for mobile communications for the core 3G network and the base station controllers were completed, as well as the production transfer of equipment associated with the NGN network gateways. The products passed the bulk volume test of China Mobile and the bulk volume gateway performance test of China Telecom. Currently, the IP switching platforms for mobile communications and the base station controllers are being put to commercial application in several countries overseas, and are expected to have a positive effect on ZTE's revenue generated from global markets.

Core routers

Most research and development programs for the project were completed. Products developed were capable of simultaneously supporting IPV4/IPV6 dual-protocol, in addition to supporting IPv6 router protocol and the IPv6 transition mechanism. As core equipment for China's model next generation foundational network, high-end routers were selected to be used in the next generation foundational networks of both China Mobile and China Unicom, and will soon be put to commercial application. The ZXR10 series have generated sales revenue of RMB100 million to date.

NGN systems

In 2005, the Company launched the leading bulk-volume media network gateway equipment and softswitch control equipment. We also undertook in China Telecom's long-distance softswitch commercial trial network and network intelligence modification projects for fixed line convergence stations at Guangdong, Guangxi, Anhui, Shanghai, Wuhan, Chongqing, Qinghai and Inner Mongolia. The above projects are currently under implementation as planned, while certain completed sections have been put to commercial application, indicating that NGN network systems developed by ZTE are capable of large-scale commercial application.

Intelligent wireless integrated access systems

The first stage of research and development for the project was completed. Selected products had been launched in the domestic and overseas market after passing the testing procedures of China Telecom Research Institute. In 2006, the Company will further its development of products with access to expanded 3G network connections to support integration of fixed line and mobile networks. With their capability to accommodate a broad range of wireless access technologies, intelligent wireless integrated access systems are well-positioned to provide customized and enriched services to end-users. With increasing sophistication of wireless terminal technologies, intelligent wireless integrated access systems hold out enormous potential as a commercial product.

The year 2005 was the Company's "international year", as proceeds from the offering of shares applied in overseas operations contributed to the continuous growth of the Group's overseas revenue in 2005.

Changes to projects committed

☐ Applicable √ N/A

6.6 Investments other than from proceeds of global offering

√ Applicable ☐ N/A

- In April 2005, the Company made an additional investment of USD3 million in cash in Zimax (Cayman) Holding Ltd. Following the additional investment, Zimax (Cayman) Holding Ltd. had a registered capital of USD5.50 million and the Company held 100% of its shares.
- In June 2005, ZTE (H.K.) Limited and ZTE (Australia) Pty Ltd, both wholly-owned subsidiaries of the Company, established ZTE Nigeria Investment Ltd with an investment USD2.09 million. With a registered capital of 5 million Naira, ZTE Nigeria Investment Ltd was mainly engaged in SKD assembly of handsets, import of raw materials, manufacturing, user training and after-sales services for telecom products. The Company held 100% of the company through ZTE (H.K.) Limited and ZTE (Australia) Pty Ltd.
- In June 2005, the Company made a capital contribution of RMB6 million and through ZTE (H.K.) Limited an additional RMB10 million to establish Shenzhen Zhongxing Liwei Technology Limited ("Liwei"). The registered capital of Liwei was RMB20 million,. The Company and ZTE (H.K.) Limited jointly held 80% of its shares. Liwei was principally engaged in the design and development, sales, installation, testing and services relating to base station control systems, network video control systems, various electronic systems equipment for network control and monitoring systems.

6.7 Explanatory statement by the Board of Directors in respect of qualified opinion from accountants

☐ Applicable √ N/A

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

The audited net profit of the Company for 2005 calculated in accordance with PRC GAAP amounted to RMB792,566,000. Profit available for distribution amounted to RMB3,355,950,000 after deducting the transfer of 10% to the statutory surplus reserve amounting to RMB79,257,000, the transfer of 5% to the statutory public welfare fund amounting to RMB39,628,000 and the capitalisation of ordinary share dividends amounting to nil, and adding the undistributed profit of RMB2,682,269,000 carried forward at the beginning of the year.

The audited net profit of the Company for 2005 calculated in accordance with HKASs amounted to RMB1,084,317,000. Profit available for distribution amounted to RMB1,195,262,000 after deducting the transfers to the statutory surplus reserve and statutory public welfare totaling RMB118,885,000, the capitalisation of ordinary share dividend amounting to nil, and adding the undistributed profit of RMB229,830,000 carried forward at the beginning of the year.

In accordance with the requirements of the Ministry of Finance of the PRC and the Articles of Association of the Company, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC GAAP and that calculated in accordance with HKASs. Therefore the amount of profit available for distribution is RMB1,195,262,000. The 2005 profit distribution plan recommended by the Board of

Directors of the Company is as follows: RMB2.5 for every 10 shares (including tax) or a total of RMB239,880,000 in cash on the basis of the Company's total share capital of 959,521,650 shares as at 31 December 2005.

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

☐ Applicable √ N/A

6.9 Purchase, sale or redemption of shares

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

6.10 Business outlook and risk exposure of the Company

6.10.1 *Business outlook for 2006*

The year 2006 is set to be full of opportunities as well as challenges. The Group will continue to focus on domestic 3G carriers, carriers in developed countries and multinational carriers. On the back of our solid track records, we will focus our development on three areas: from a mainstream supplier of telecommunications products in China to a leading global mainstream supplier of telecommunications products; from the provision of communications hardware products to the provision of leading software products and services and, finally, from a operations-driven and technology-driven business model to a leading market-driven model. Major objectives set for 2006 are as follows:

- enhancing penetration of the domestic market to ensure balanced development in different sectors of the carrier market;
- targeting multinational carriers in the international market on top of local carriers and striving for breakthroughs;
- striving to lead rather than to follow in terms of product technologies;
- shifting focus from an operations and technical-based business model to a market-based business model;
- enhancing the commercial viability of product lines; and
- deepening the development of regional platforms in the international market to facilitate a more effective team.

To these ends, the Group will facilitate major fund applications using measures including increasing the rate of turnover of funds, and improve operating efficiency. Funding requirements arising from new projects will be satisfied by reasonable and effective use of various financing tools including bank loans, depending on market conditions. The Group will continue to invest in ZTE Industrial Park and R&D centers in Shanghai and Nanjing in a bid to maintain its competitive advantage and ability for sustainable development. At the same time, fixed assets, IT equipment and software will be upgraded or acquired as necessary.

6.10.2 *Risk exposure*

- Uncertainties in China's 3G market — The issue of 3G licences is subject to a variety of factors which are difficult to accurately predict. The extent of the future development of the 3G market is dependent on external as well as internal factors, such as the level of market competition, consumer preferences, carriers' strategies, value-added services and the progress in terminal development. Therefore, uncertainties exist in the marketing of the Group's 3G products in China.
- Changing market demands in China — Sales and profitability of the Group's existing product lines may be affected as there has been a substantial decline in investments by PRC carriers in PSTN, CDMA and PHS, which are major products of the Group, while value-added services, IPTV and other new products, still in a preliminary stage of development, are unlikely to replace the traditional products in the short-term as a comparable source of revenue.
- International market risks — The Group has now established business presence in over 100 countries and regions. Such geographic coverage demands a high level of skills to cope with issues arising from differences in political and legal systems, taxation, market profiles and cultural traditions. Meanwhile, legal differences and rapid changes in the international market, especially in developing countries, pose challenges to the stable development of the Group's business.
- Financial risks — Accounts receivable, exchange rates and interest rates are areas of particular concern for the Company. Exchange rate and interest rate regimes vary from country to country without any single market or tool for hedging risks. The Group has enhanced its risk control measures to meet the needs of its growing international business.

In relation to operating risks, the Group shall continue to explore new markets and products in a pro-active manner and increase investments in the research and development of new products to avoid over-dependence on any single product or market.

In relation to legal and financial risks, the Group will devote additional human resources to improve its management and risk control regimes and adopt a prudent financial policy underpinned by adequate provisions, so that the Group will be able to attain stable development by controlling overall risks.

7. MATERIAL MATTERS

7.1 Acquisition of assets

☐ Applicable √ N/A

7.2 Significant connected transactions

7.4.1 *Connected transactions in the ordinary course of business (in accordance with the PRC regulation)*

√ Applicable ☐ N/A

Classification of Transaction	Subject Matter	Member of the Group (Party to Connected Transaction)	Connected Person (Counterparty to Connected Transaction)	Pricing Basis	Amounts for Connected Transactions for January to December, 2005 (excluding VAT) (in RMB10,000)	As a percentage of transactions in the same classification	Settlement	Whether different from estimated conditions
Purchases of raw materials	Various telecommunication products such as cabinets, distribution frames, soft circuit boards and other raw materials	ZTE Kangxun Telecom Company Limited ("ZTE Kangxun")	Zhongxingxin and its subsidiaries, Shenzhen Zhongxing Xinyu FPC Company, Limited ("Zhongzing Xinyu") and Shenzhen Zhongxing Xindi Telecommunications Equipment Company, Limited. ("Zhongxing Xindi")	Consistent with market prices (as per contract)	43,096.40	3.12%	banker's acceptance bill	No
	Circuit protectors and other electronic products	ZTE Kangxun	Xi'an Microelectronics	Consistent with market prices (as per contract)	771.8	0.06%	banker's acceptance bill	No
	Printers and other electronic products	ZTE Kangxun	Chung Hing (Hong Kong) Development Limited ("Chung Hing Hong Kong")	Consistent with market prices (as per contract)	816.6	0.06%	banker's acceptance bill	Exceeded by RMB7.366 million*
	Soft circuit boards and other products	Shenzhen Lead Communications Company, Limited ("Lead")	Zhongxing Xinyu	Consistent with market prices (as per contract)	695.6	0.05%	banker's acceptance bill	Exceeded by RMB4,456,000
	IC, connector assemblies, optical devices, modules and other ancillary equipment	ZTE Kangxun	Zhongxing WXT and its investee entity, Shenzhen Gaodonghua Communication Technique Co., Ltd	Consistent with market prices (as per contract)	18,432.6	1.31%	banker's acceptance bill	No
Products sales	Handsets and other products	The Company	Xi'an Microelectronics	Consistent with market prices (as per contract)	647.8	0.03%	banker's acceptance bill	No
	Electronic components etc.	ZTE Kangxun	Zhongxing WXT	Consistent with market prices (as per contract)	523.3	0.02%	banker's acceptance bill	Exceeded by RMB233,000

Note: The excess was mainly attributable to the rapid expansion of the Group's overseas business resulting in an increase of the transaction amount relating to the Group's purchase of certain electronic equipment from Chung Hing Hong Kong and soft circuit boards and other products from Zhongxing Xinyu, both of which were connected parties. However, the gross amount of connected transactions for the Group's purchases category did not exceed the original estimate. Although the total amounts for 2005 for each of the two categories of connected transactions listed above exceeded the estimated total transaction amounts as disclosed in the prospectus, the above connected transactions remained within the threshold specified for de minimis transactions under Rule 14A.33 of the Hong Kong Stock Exchange Listing Rules, that is, the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Stock Exchange Listing Rules on an annual basis for 2005 were less than 0.1%.

Connected transactions involving sales of products or provision of labor services to the controlling shareholder and its subsidiaries by the listed Company during the year amounted to RMB558,000.

7.4.2 *Creditors and debtors with connected parties*

☐ Applicable √ N/A

7.5 Entrusted fund management

☐ Applicable √ N/A

7.6 Performance of undertakings

√ Applicable ☐ N/A

7.6.1 Please refer to the note to Section 4.2.1 in this annual report summary for details.

7.6.2 Undertakings described in Section 4.2.1 of this annual report summary were performed normally without any breach.

7.6.3 Neither the Company nor any of its shareholders interested in 5% of above of the Company's shares entered into other undertakings.

7.7 Material litigation or arbitration

√ Applicable ☐ N/A

During the year, the Group had no material litigaton or arbitration. Other litigations and arbitrations were as follows:

(1) Litigation instituted by Beijing Success Communications and Electronic Engineering Co., Ltd. against the Company's subsidiary Yangzhou Zhongxing Mobile Telecom Equipment Co., Ltd., and the Company. For further details of the litigation, please refer to the announcement published by the Company on 21 December 2005 in China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times. The date of the hearing has not been determined. As the case is currently under trial, the final outcome of the litigation cannot at this stage be ascertained with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that Yangzhou Zhongxing and the Company have sufficient and valid defences and the outcome of the arbitration will not have any material adverse impact on the Group's financial conditions.

(2) Litigation instituted by the Group against Fairchild Semiconductor Corporation. For details of the litigation, please refer to the 2005 Third Quarterly Report published by the Company on 26 October 2005 the section headed "Material legal proceedings" in China Securities Journal, Securities Times, Shanghai Securities News, South China Morning Post and Hong Kong Economic Times. The case is currently under trial.

(3) On 16 December 2005, a supplier of the Company alleged that the Company had breached contract and infringed its intellectual property and claimed indemnity for a total amount of USD36.45 million. Details of the arbitration claim are as follows:

- not less than USD4 million in respect of wasted expenditure incurred by the supplier in the development, production and the acquisition of requisite software, hardware and design;
- not less than USD7 million in respect of loss of anticipated profit for one year during the term of the cooperation agreement;
- not less than USD7 million in respect of losses arising from infringements of design patent and other intellectual property rights after the expiry of the one year term of the cooperative agreement;
- not less than USD18 million, for account of profits as a result of the alleged infringement of intellectual property rights and breach of contract;
- USD300,000 in respect of outstanding payment for delivered goods;
- USD150,000 for refund of software application deposit under the cooperative agreement and interests accrued.

As at the date of publication of this report, the arbitration tribunal had been formed and the Company had filed its defences, for which the arbitration authority had yet to issue an award. As the case is currently under trial, the final outcome of the arbitration cannot at this stage be ascertained with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the Company have sufficient and valid defenses and the outcome of the arbitration will not have any material adverse impact on the Group's financial conditions.

(4) On 18 August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately RMB107.36 million in respect of advisory fees, agency fees and related damages. As at the date of this annual report summary, the arbitration tribunal has yet to issue an award. As the case is currently under trial, the final outcome of the arbitration cannot at this stage be ascertained with any reasonable certainty. Based on the legal opinion furnished by the Company's lawyers, the Directors are of the opinion that the Company has sufficient and valid defences and the outcome of the arbitration award would not have any material adverse impact on the Group's financial position.

(5) An administrative penalty notice had been served upon Zhongxing Telecom Pakistan (Pvt) Ltd, a subsidiary of the Company, by the Collectorate of Customs, Sales Tax and Central Excise (Adjudication/Appeals), Rawalpindi, in respect of a claim of additional custom duties of approximately RMB23.9 million and a penalty of approximately RMB324 million for the misdeclaration of the imported goods. On 5 September 2005, all the disputes between the parties relating to this action were referred to Alternate Dispute Resolution Committee (ADRC) for resolution at the direction of Central Board of Revenue, the governing authorities of the Rawalpindi Customs, after Zhongxing Telecom Pakistan (Pvt) Ltd raised an appeal. ADRC issued a report after in-depth investigation and analysis, which fully supported the grounds of appeal furnished by Zhongxing Telecom Pakistan (Pvt) Ltd and held that Zhongxing Telecom Pakistan (Pvt) Ltd had completed customs declarations correctly in respect of all import goods. The report also held that the Rawalpindi Customs should withdraw the administrative penalty. Based on the legal opinion on the dispute furnished by the lawyers engaged by the Company and the ADRC report, the Directors are of the opinion that the Company has sufficient and valid reasons to believe that the Central Board of Revenue will give a just ruling based on the ADRC report and the aforesaid matter would not have any material adverse impact on the Group's financial position.

The Company will make timely announcement in the event of any substantial progress of the aforesaid arbitrations and litigations.

8. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is of the view that the Company was operating in accordance with the law and that there were no irregularities in the financial position, use of proceeds, acquisitions and disposals of assets and connected transactions of the Company.

9. CORPORATE GOVERNANCE REPORT

The Group has been dedicated to raising the corporate governance standards and improving the accountability and transparency of the Group, with a view to creating the greatest value for its shareholders in the long run.

The Directors of the Company have confirmed the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules. After making specific enquiry with the Directors, the Company is not aware of any situation that would reasonably indicate that the Directors or Supervisors of the Company were not in compliance with the requirements of the Model Code throughout 2005.

Save as deviations stated below, the Group had complied with all applicable code provisions of the Code on Corporate Governance Practices set out as Appendix 14 to the Hong Kong Stock Exchange Listing Rules:

A.1.3

Code Provision: Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.

Deviation: The Articles of Association provides for a notice of 10 days prior to regular Board meetings.

Explanations: To ensure full compliance of our corporate governance practices with the provisions in the Code on Corporate Governance Practices, the Company has commenced giving notice of meeting 14 days before the commencement of regular Board meetings in actual operation, and proposed amendments have been made to relevant terms of the Articles of Association to be submitted to the 2005 Annual General Meeting for review.

A.5.4

Code Provision: The board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.

Deviation: Prior to 10 April 2005, the Board had not established any written guidelines for relevant employees in respect of their dealings in the securities of the Company.

Explanations: The resolution of adopting the Model Code as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules was considered and passed in the twelfth meeting of the third session of the Board of Directors of the Company on 10 April 2005 as written guidelines for the Directors and relevant employees of the Company in respect of their dealings in the securities of the Company.

B.1.3

Code Provision: The terms of reference of the remuneration committee should include, as a minimum, the following specific duties:

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

(e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

Deviation: In light of the scope of responsibilities of the Remuneration and Evaluation Committee provided for in the above code provision, the Remuneration and Evaluation Committee of the Company had not completely performed its duties in actual operation. While the performance management rules of the Company's senior management (including the President) have been reviewed and approved by the Remuneration and Evaluation Committee, the specific remuneration packages for other members of the senior management of the Company (other than the President) were not subject to review and approval by the Remuneration and Evaluation Committee.

Explanations: The amended terms of reference of the Remuneration and Evaluation Committee, revised in accordance with the Code of Corporate Governance Practices to comply with code provision B.1.3, were considered and approved by the Board of Directors at its meeting on 10 April 2005. Since 10 April 2005, the Company has strictly complied with the new requirements of the Code on Corporate Governance Practices.

C.3.3

Code Provisions: The terms of reference of the audit committee should include at least the following duties:

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The audit committee should report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(f) to review the issuer's financial controls, internal control and risk management systems;

(g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

Deviation: In respect of the scope of responsibilities of the audit committee stipulated in the above code provisions, the audit committee of the Company had not fully performed its duties in actual operation.

Explanations: The amended terms of reference for the Audit Committee, revised in accordance with the Code of Corporate Governance Practices to comply with code provision C.3.3, were considered and approved by the Board of Directors at its meeting on 10 April 2005. Since 10 April 2005, the Company has strictly complied with the new requirements of the Code on Corporate Governance Practices.

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 2005, the consolidated and company income statements as at 31 December 2005, statements of income distribution and cash flow statements for 2005 prepared by the Group in accordance with PRC GAAP and with HKASs.

10.2 Audit Opinion

Ernst & Young Hua Ming issued a standard auditors' report without any qualified opinion (Ernst & Young Hua Ming 2006 Zi No 244060-01) following auditing in connection with the consolidated and company balance sheets as at 31 December 2005, the consolidated and company income statements, statements of income distribution and cash flow statements for 2005 prepared by the Group in accordance with PRC GAAP.

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company balance sheets as at 31 December 2005, the consolidated and company income statements, statements of income distribution and cash flow statements for 2005 prepared by the Group in accordance with HKASs.

10.3 Comparative consolidated balance sheets, income statements, statements of income distribution and cash flow statements of the parent. (Please see attachment)

10.3.1 ***Differences between the Group's net profit for 2005 and shareholders' equity at the end of 2005 prepared under PRC GAAP and those prepared under HKASs***

(1) Analysis of the effects arising from material differences between the PRC GAAP and the HKASs on net profit is as follows:

	Notes	**2005** *RMB'000*	2004 *RMB'000*
Net profit			
Net profit from ordinary activities attributable to shareholders under PRC GAAP		**1,194,343**	1,008,870
Add back/(deduct):			
Accounting differences			
Recognition of government grants	(i)	**(8,881)**	38,630
Recognition of deferred bonuses	(ii)	—	(127,951)
Provision for retirement benefits	(iii)	**(1,536)**	(1,733)
Deferred development costs	(iv)	**115,621**	(38,763)
Recognition of excess over the cost of business combination	(v)	**9,460**	—
Deferred tax assets	(vi)	**(21,306)**	
Other differences			
Difference in accounting estimates in respect of revenue recognized using percentage of completion method for telecommunications systems contracts	(vii)	—	(668,042)
Recognition of income tax and deferred tax	(vi)	—	94,881
Difference in accounting estimates in respect of provision for trade receivables, other receivables and prepayments and net realizable value of inventories	(viii)	—	553,402
Consolidation of subsidiaries	(ix)	—	112,653
Estimated useful lives of fixed assets	(x)	—	132,988
Accrual of performance bonuses	(xi)	—	167,554
Profit attributable to equity holders of the parent under HKASs		**1,287,701**	1,272,489

(2) Analysis of the effects arising from material differences between the PRC GAAP and the HKASs on shareholders' equity is as follows:

	Notes	**31 December 2005** *RMB'000*	31 December 2004 *RMB'000*
Shareholders' equity			
Shareholders' equity under PRC GAAP		**10,125,095**	9,174,439
Add back/(deduct):			
Accounting standards differences			
Recognition of government grants	(i)	**(4,926)**	5,149
Provision for retirement benefits	(iii)	**(30,459)**	(28,923)
Deferred development costs	(iv)	**182,108**	66,487
Deferred tax assets	(vi)	**(21,306)**	—
Equity attributable to equity holders of the parent under HKASs		**10,250,512**	9,217,152

(i) *Government grants*

Government grants for specific research and development projects are accounted for as specific payables under PRC GAAP. Whereas under HKASs, such grants are accounted for as deferred income in the other payable or other long-term payable accounts.

Under PRC GAAP, the research and development costs are recognized as technology development costs in inventory to the extent of the granted amounts, and the specific payables thereof will be transferred to the inventory account to off-set the technology development costs upon completion of the projects.

Under HKASs, the deferred income is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are intended to compensate.

(ii) *Recognition of deferred bonuses*

Under PRC GAAP, there is no specific standard, regulation or rule for the recognition of deferred bonuses. All the deferred bonuses are expensed as declared irrespective of whether or not the employee has qualified to be entitled to such bonuses.

Under HKASs, the deferred bonuses are recognized when the employee is qualified to be entitled to the bonuses and charged to the income statement over the required service period.

(iii) *Provision for retirement benefits*

Under PRC GAAP, there is no specific standard, regulation or rule for the recognition of post-retirement benefits under defined retirement benefits plan. The costs of post-retirement benefits are expensed as incurred.

Under HKASs, the costs of providing these benefits under the defined retirement benefits plan are actuarially determined and recognised over the employees' service period.

(iv) *Deferred development costs*

Under PRC GAAP, all research and development costs are charged to the income statement as incurred.

Under HKASs, expenditures incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(v) *Excess over the cost of business combinations*

Under PRC GAAP, excess over the cost of business combination is credited to capital reserves.

Under HKASs, any excess of the Group's interest in the net fair value of the acquirees' identifiable assets and liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognized immediately in the income statement.

(vi) *Income tax and deferred tax*

Deferred tax is recognized to account for the effect of any temporary differences arising from the accounting differences between PRC GAAP and HKASs in the preparation of the Group's financial statements under PRC GAAP and HKASs.

(vii) *Revenue recognition using the percentage of completion method*

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the stage of completion relating to the revenue recognition for telecommunications systems contracts is revised to be estimated by reference to the completion of the physical proportion of the work or the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the telecommunications systems contracts recorded under PRC GAAP and HKASs.

(viii) *Provisions*

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of the provisions for trade receivables, other receivables and prepayments and net realisable value of inventories.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the provisions accounted for under PRC GAAP and HKASs.

(ix) *Consolidation of subsidiaries*

The differences represent historic discrepancies on the carrying values of interests in subsidiaries recorded by the Company under PRC GAAP as compared to the shareholders' equity and current account balances recorded in the financial statements of individual subsidiaries prepared under PRC GAAP or HKASs.

(x) *Estimated useful lives of fixed assets*

In the preparation of the financial statements under PRC GAAP for the year ended 31 December 2004, the Group had changed its accounting estimates during the year in respect of useful lives of certain fixed assets.

Subsequent to the change of accounting estimates for the preparation of financial statements under PRC GAAP, there are no differences between the depreciation charged under PRC GAAP and HKASs.

(xi) *Accrual of performance bonuses*

Performance bonuses were accrued upon approval in the preparation of the financial statements under HKASs. Such performance bonuses were only charged to the income statement upon actual payment in 2004 and included in the financial statements prepared under PRC GAAP for the year ended 31 December 2004.

10.4 Changes in accounting policies, accounting estimates and auditing methods compared to the 2004 annual report

√ Applicable ☐ N/A

Effective from 1 January 2005, the Company has applied the following methodology in making specific bad debt provision in respect of accounts receivable so that the estimation methodology for bad debt provision might more accurately reflect the financial conditions and operating results of the company:

- Specific bad debt provision shall be separately made in respect of accounts receivable (irrespective of size) for which there is direct evidence that impairment has occurred. Separate impairment tests shall be conducted in respect of individual account receivable with a significant amount or prolonged overdue period, and specific bad debt shall be made if there is objective evidence that impairment has occurred.
- Accounts receivable (irrespective of size) in respect of which no separate test has been carried out or no impairment has been recorded in separate test shall be consolidated into an asset portfolio that shows similar credit risk features for impairment tests and a specific bad debt provision will be made. The grading of credit risk and its corresponding empirical impairment ratios are differentiated and determined on the basis of with the current financial conditions of customers, historical trading records and overdue periods of accounts receivable.

The adoption of this revised accounting estimate resulted in an increase of RMB145,920,000 in both the consolidated net profit of the year and the consolidated net assets at year-end. The aged analysis and impairment ratios following the adoption of the new methodology are set out as follows:

	2005				2004			
	Book balance	**Percentage**	**Bad debt provision**	**Ratio of provision**	Book balance	Percentage	Bad debt provision	Ratio of provision
Within 1 year	3,535,496	84.28%	109,961	3.11%	3,513,954	86.08%	124,909	3.55%
1–2 years	545,333	13.00%	232,046	42.55%	420,742	10.31%	224,275	53.3%
2-3 years	47,377	1.13%	36,826	77.73%	113,999	2.79%	67,346	59.08%
3 years	66,628	1.59%	66,413	99.68%	33,416	0.82%	13,075	39.13%
	4,194,834	100%	445,246		4,082,111	100%	429,605	
Total bad debt provision ratio		10.61%				10.52%		

Note: Total bad debt provision ratio = year-end balance of bad debt provision ÷ year-end balance of accounts receivable × 100%

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 2004 annual report are set out in the following table:

Name of Company	**Change**	**Reasons**
Shanxi Zhongxing Telecom Equipment Company, Limited	Reduction	Liquidation and deregistration
ZTE Future Tel Co., Ltd.	Reduction	Transferred
ZTE IC Design Co., Ltd.	Reduction	Reduced shareholding
深圳市弘德電池有限公司	Addition	New incorporation
ZTE (HK) Ltd. Saudi Arabia	Addition	New incorporation
ZTE NIGERIA INVESTMENT LTD	Addition	New incorporation
ZTE Sweden AB	Addition	New incorporation
PT ZTEINDONESIA	Addition	New incorporation
廣州南方電信軟件有限公司	Addition	New incorporation
Anhui Yalong Communications Technology Company, Ltd.	Addition	New incorporation
ZTE Istanbul Trading Ltd. Co.	Addition	New incorporation
ZTE Hrvatska d.o.o.	Addition	New incorporation
ZTE CORPORATION BULGARIA Ltd.	Addition	New incorporation
ZTE Deutschland GmbH	Addition	New incorporation
ZTE POLAND Sp.zo.o.	Addition	New incorporation
深圳中興力維技術有限公司	Addition	New incorporation
西安中興精誠通訊有限公司	Addition	Increase shareholding
ZiMax Technologies Inc	Addition	New incorporation
Newinfo Holdings Limited	Addition	New incorporation
WANAAG COMMUNICATIONS LIMITED	Addition	New incorporation
ZTE CANADA INC	Addition	New incorporation
ZTE NETHERLANDS B.V.	Addition	New incorporation
ZTE GHANA LIMITED	Addition	New incorporation
深圳中興無線通信有限公司	Addition	New incorporation
ZTE (Australia) PTY LTD.	Addition	New incorporation
Congo-Chine Telecom S.A.R.L.	Addition	New incorporation
深圳市興飛科技有限公司	Addition	New incorporation

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

By order of the Board
Chairman
Hou Weigui

7 April 2006

As at the date of this statement, 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.

Attachments:

I. ACCOUNTING STATEMENTS PREPARED IN ACCORDANCE WITH PRC GAAP

Accounting statements prepared in accordance with PRC GAAP

CONSOLIDATED BALANCE SHEET *(Prepared under PRC GAAP)*

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Assets		
Current assets		
Cash in banks and on hands	**5,573,132**	7,598,223
Bills receivable	**1,244,853**	2,258,088
Trade receivables	**3,441,922**	3,652,506
Factored trade receivables	**36,416**	—
Other receivables	**279,975**	257,595
Accounts prepaid	**151,174**	145,398
Inventories	**2,519,547**	1,871,767
Amount due from customers for contract work	**4,689,157**	2,752,024
Prepaid expenses	**—**	478
Total current assets	**17,936,176**	18,536,079
Long-term investment		
Long-term equity investments	**85,459**	67,176
Total long-term investments	**85,459**	67,176
Fixed assets		
Fixed assets — cost	**3,623,940**	2,785,789
Less: Accumulated depreciation	**1,148,789**	830,873
Net fixed assets	**2,475,151**	1,954,916
Less: Impairment provision	**94,980**	94,980
Fixed assets, net	**2,380,171**	1,859,936
Construction in progress	**126,741**	114,677
Total fixed assets	**2,506,912**	1,974,613
Intangible and other assets		
Intangible assets	**160,264**	146,214
Long-term prepaid expenses	**—**	1,315
Long term trade receivables	**307,666**	—
Factored long-term trade receivables	**687,765**	—
Long-term deferred assets	**13,996**	—
Total intangible and other assets	**1,169,691**	147,529
Deferred taxes		
Deferred taxes assets	**80,893**	104,625
TOTAL ASSETS	**21,779,131**	20,830,022

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
LIABILITIES AND OWNER'S EQUITY		
Current liabilities		
Short-term loans	**99,695**	405,695
Bank advance on factored trade receivables	**36,416**	—
Bills payable	**1,977,584**	1,422,401
Accounts payables	**4,292,208**	2,919,483
Amount due to customers for contract works	**733,455**	2,318,731
Advances from customers	**861,024**	292,023
Accrued payroll	**622,804**	1,031,464
Welfare payable	**394,216**	437,786
Dividends payable	**163,008**	40,921
Taxes payable	**(670,282)**	52,459
Sundry payables	**7,134**	13,197
Other payables	**626,066**	698,727
Accrued expenses	**346,668**	268,534
Provision	**20,035**	20,000
Long-term loans due within 1 year	**500,000**	16,900
Total current liabilities	**10,010,031**	9,938,321
Long-term liabilities		
Long-term loans	**80,000**	1,025,263
Bank advance on factored long-term trade receivables	**687,765**	—
Specific amounts payable	**405,511**	227,320
Total long-term liabilities	**1,173,276**	1,252,583
Total liabilities	**11,183,307**	11,190,904
Minority interests	**470,729**	464,679
Owner's equity:		
Issued capital	**959,522**	959,522
Capital surplus	**5,506,424**	5,491,658
Surplus reserve	**1,264,060**	985,356
of which: statutory welfare reserve	**344,908**	252,006
Undistributed profits	**2,171,190**	1,495,431
Exchange differences	**(15,981)**	2,592
Declared cash dividends	**239,880**	239,880
Total owner's equity	**10,125,095**	9,174,439
TOTAL LIABILITIES AND OWNER'S EQUITY	**21,779,131**	20,830,022

CONSOLIDATED INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION

	Year ended 31 December 2005 RMB'000	2004 RMB'000
Revenue from principal operations	**21,575,920**	22,698,153
Less: Cost of sales	**13,944,797**	14,369,106
Taxes and surcharges	**105,660**	70,912
Profit from principal operations	**7,525,463**	8,258,135
Add: Profit from other operations	**15,779**	41,339
Less: Selling and distribution expenses	**3,023,126**	2,929,110
General and administrative expenses	**3,137,066**	3,899,003
Finance expense	**288,751**	284,978
Operating profit	**1,092,299**	1,186,383
Add: Investment income	**(59,354)**	(3,669)
Subsidy income	**458,014**	378,698
Non-operating income	**27,627**	18,041
Less: Non-operating expenses	**16,722**	160,637
Total profit	**1,501,864**	1,418,816
Less: Income tax	**158,545**	207,935
Minority interests	**148,976**	202,011
Net profit	**1,194,343**	1,008,870
Add: Undistributed profits, beginning of the year	**1,495,431**	1,221,165
Appropriated profit	**2,689,774**	2,230,035
Less: Statutory common reserve	**185,802**	240,843
Statutory public welfare fund	**92,902**	120,422
Profit available for distribution to equity owners	**2,411,070**	1,868,770
Less: Proposed ordinary shares dividends	**239,880**	239,880
Ordinary shares dividends converted to shares	**—**	133,459
Undistributed profits at year-end	**2,171,190**	1,495,431

Supplemental Information

Item	2005 RMB'000	2004 RMB'000
1. Gains received from sale or disposal of business departments or investee units	**—**	—
2. Losses resulting from natural disaster	**—**	—
3. Increase (or decrease) in total profit as a result of changes in accounting policies	**—**	—
4. Increase (or decrease) in total profit as a result of changes in accounting estimates	**145,920**	(238,637)
5. Losses resulting from debt restructuring	**—**	—
6. Others	**—**	—

CONSOLIDATED CASH FLOW STATEMENT

Item	2005 RMB'000	2004 RMB'000
1. Cash flows from operating activities		
Cash received from sale of goods or rendering services	**21,315,221**	23,200,614
Refunds of taxes	**458,014**	369,663
Cash received relating to other operating activities	**119,215**	184,514
Sub-total of cash inflow	**21,892,450**	23,754,791
Cash paid for goods and services	**13,915,822**	15,560,704
Cash paid to and on behalf of employees	**2,793,854**	2,278,869
Cash paid for all types of taxes	**1,679,312**	1,490,169
Cash paid relating to other operating activities	**3,326,157**	2,780,430
Sub-total of cash outflow	**21,715,145**	22,110,172
Net cash inflow from operating activities	**177,305**	1,644,619
2. Cash flows from investing activities		
Cash received from sale of investments	**331**	95,213
Net cash received from (paid for) the disposal of subsidiaries	**(31,555)**	—
Cash received from gains of investment	**—**	2,619
Net cash received from disposal of fixed, intangible and other long-term assets	**41,372**	990
Sub-total of cash inflow	**10,148**	98,822
Cash paid to acquire fixed, intangible assets	**921,463**	542,178
Cash paid for acquisition of investments	**72,955**	122,976
Cash paid relating to other investing activities	**—**	85
Sub-total of cash outflow	**994,418**	665,239
Net cash outflow from investing activities	**(984,270)**	(566,417)
3. Cash flows from financing activities		
Cash received from investment	**25,227**	3,540,417
Cash received from borrowings	**108,695**	2,775,971
Cash received relating to other financing activities	**—**	31,112
Sub-total of cash inflow	**133,922**	6,347,500
Cash paid for debt repayments	**869,867**	3,237,824
Cash payments for distribution of dividends and interest expenses	**459,553**	344,042
Cash paid relating to other financing activities	**—**	33,227
Sub-total of cash outflow	**1,329,420**	3,615,093
Net cash inflow/(outflow) from financing activities	**(1,195,498)**	2,732,407
4. Effect of foreign exchange rate changes on cash	**(22,628)**	2,592
5. Net increase in cash and cash equivalents	**(2,025,091)**	3,813,201

Item	2005 RMB'000	2004 RMB'000
1. Reconciliation of net profit to cash flows from operating activities		
Net profit	**1,194,343**	1,008,870
Add: Minority interests	**148,976**	202,011
Provision for assets impairment	**362,300**	1,166,771
Depreciation of fixed assets	**394,984**	307,691
Amortization of intangible assets	**51,009**	53,928
Amortization of long-term prepaid expenses	**1,616**	6,359
Decrease in prepaid expenses	**478**	2,011
Increase in accrued expenses (less: decrease)	**78,134**	(54,963)
Losses on disposal of fixed, intangible and other long-term assets (less: gains)	**(909)**	84
Losses on retirement of fixed assets	**7,072**	43,785
Finance expense	**175,884**	151,182
Losses on investment	**59,354**	9,367
Deferred tax credit (less: debit)	**23,732**	(38,211)
Decrease in inventories (less: increase)	**(866,316)**	2,194,557
Decrease in operating receivable items	**(2,015,438)**	(4,097,689)
Increase in operating payable items	**562,086**	688,866
Net cash flows from operating activities	**177,305**	1,644,619
2. Net increase in cash and cash equivalents		
Cash at end of year	**5,573,132**	7,598,223
Less: Cash at beginning of year	**7,598,223**	3,785,022
Add: Cash equivalents at end of year	**—**	—
Less: Cash equivalents at beginning of year	**—**	—
Net increase in cash and cash equivalents	**(2,025,091)**	3,813,201

BALANCE SHEET

	As at 31 December 2005 RMB'000	2004 RMB'000
Assets		
Current assets		
Cash in banks and on hands	**4,258,936**	6,463,165
Bills receivable	**1,209,151**	2,240,530
Dividends receivable	**16,465**	1,371
Trade receivables	**4,481,796**	4,016,330
Factored trade receivables	**5,007**	—
Other receivables	**1,230,352**	751,559
Accounts prepaid	**67,305**	58,380
Inventories	**1,557,312**	1,350,130
Amounts due from customers for contract work	**4,440,842**	3,414,540
Total current assets	**17,267,166**	18,296,005
Long-term investment		
Long-term equity investments	**2,833,305**	2,992,995
Total long-term investments	**2,833,305**	2,992,995
Fixed assets		
Fixed assets -—cost	**2,491,000**	1,877,501
Less: Accumulated depreciation	**712,768**	469,997
Net fixed assets	**1,778,232**	1,407,504
Less: Impairment provision	**87,002**	87,002
Fixed assets, net	**1,691,230**	1,320,502
Construction in progress	**77,261**	98,100
Total fixed assets	**1,768,491**	1,418,602
Intangible and other assets		
Intangible assets	**87,081**	94,358
Long-term trade receivables	**327,122**	—
Factored long-term trade receivables	**683,598**	—
Total intangible and other assets	**1,097,801**	94,358
Deferred taxes		
Deferred taxes assets	**76,419**	76,419
TOTAL ASSETS	**23,043,182**	22,878,379

	Notes	As at 31 December 2005 RMB'000	2004 RMB'000
LIABILITIES AND OWNER'S EQUITY			
Current liabilities			
Short-term loans		**—**	340,344
Bank advance on factored trade receivables		**5,007**	—
Bills payable		**1,918,831**	1,453,282
Accounts payable		**6,538,622**	5,295,321
Amount due to customers for contract work		**688,876**	2,162,901
Advances from customers		**493,438**	249,004
Accrued payroll		**367,583**	663,925
Welfare payable		**326,370**	362,467
Dividends payable		**928**	920
Taxes payable		**(844,875)**	(175,111)
Sundry payables		**2,996**	900
Other payables		**1,084,091**	1,078,453
Accrued expenses		**286,561**	248,486
Provision		**16,000**	20,000
Long-term loans due within 1 year		**500,000**	—
Total current liabilities		**11,384,428**	11,700,892
Long-term liabilities			
Long-term loans		**—**	950,000
Bank advance on factored long-term receivables		**683,598**	—
Other long-term liabilities		**359,220**	177,800
Total long-term liabilities		**1,042,818**	1,127,800
Total liabilities		**12,427,246**	12,828,692

	Notes	As at 31 December 2005 RMB'000	2004 RMB'000
Owner's equity:			
Share capital		**959,522**	959,522
Capital surplus		**5,532,896**	5,515,822
Surplus reserve		**769,603**	650,718
of which: statutory welfare reserve		**242,464**	202,836
Undistributed profits		**3,116,070**	2,682,269
Exchange differences		**(2,035)**	1,476
Declared cash dividends		**239,880**	239,880
Total owner's equity		**10,615,936**	10,049,687
TOTAL LIABILITIES AND OWNER'S EQUITY		**23,043,182**	22,878,379

INCOME STATEMENTS & STATEMENTS OF INCOME DISTRIBUTION

	2005 RMB'000	2004 RMB'000
Revenue from principal operations	**20,565,052**	21,572,945
Less: Cost of sales	**16,671,822**	16,285,819
Taxes and surcharges	**56,009**	55,427
Profit from principal operations	**3,837,221**	5,231,699
Add: Profit from other operations	**149,282**	160,095
Less: Selling and distribution expenses	**2,360,822**	2,852,561
General and administrative expenses	**1,451,749**	1,952,482
Finance expense	**294,898**	256,903
Operating profit	**(120,966)**	329,848
Add: Investment income	**919,713**	1,149,900
Subsidy income	**8,259**	38,179
Non-operating income	**19,834**	7,486
Less: Non-operating expenses	**6,321**	152,878
Total profit	**820,519**	1,372,535
Less: Income tax	**27,953**	210,252
Net profit	**792,566**	1,162,283
Add: Undistributed profits, beginning of the year	**2,682,269**	2,067,667
Appropriated profit	**3,474,835**	3,229,950
Less: Statutory common reserve	**79,257**	116,228
Statutory public welfare fund	**39,628**	58,114
Profit available for distribution to equity owners	**3,355,950**	3,055,608
Less: Proposed ordinary shares dividends	**239,880**	239,880
Ordinary shares dividends converted to shares	**—**	133,459
Undistributed profits	**3,116,070**	2,682,269

CASH FLOW STATEMENT

Item	2005 RMB'000	2004 RMB'000
1. Cash flows from operating activities		
Cash received from sale of goods or rendering services	**22,269,031**	21,978,079
Refund of taxes	**8,259**	29,444
Cash received relating to other operating activities	**205,278**	100,510
Sub-total of cash inflow	**22,482,568**	22,108,033
Cash paid for goods and services	**18,549,739**	16,082,179
Cash paid to and on behalf of employees	**1,788,552**	1,367,834
Cash paid for all types of taxes	**724,097**	705,936
Cash paid relating to other operating activities	**1,756,749**	2,498,971
Sub-total of cash outflow	**22,819,137**	20,654,920
Net cash inflow (outflow) from operating activities	**(336,569)**	1,453,113
2. Cash flows from investing activities		
Cash received from sales of investment	**331**	—
Cash received from gains of investment	**2,621**	2,516
Net cash received from disposal of fixed, intangible and other long-term assets	**172,186**	136
Sub-total of cash inflow	**175,138**	2,652
Cash paid to acquire fixed, intangible and other long-term assets	**796,746**	423,726
Cash paid for acquisition of investments	**43,552**	225,645
Cash paid relating to other investing activities	**—**	—
Sub-total of cash outflow	**840,298**	649,371
Net cash outflow from investing activities	**(665,160)**	(646,719)
3. Cash flows from financing activities		
Cash received from investment	**—**	3,504,747
Cash received from borrowings	**—**	1,286,924
Cash received relating to other financing activities	**—**	30,859
Sub-total of cash inflow	**—**	4,822,530
Cash paid for debt repayments	**790,344**	1,593,483
Cash payments for distribution of dividends and interest expenses	**407,651**	310,361
Cash paid relating to other financing activities	**—**	32,500
Sub-total of cash outflow	**1,197,995**	1,936,344
Net cash inflow (outflow) from financing activities	**(1,197,995)**	2,886,186
4. Effect of foreign exchange rate changes on cash	**(4,505)**	1,476
5. Net increase (decrease) in cash and cash equivalents	**(2,204,229)**	3,694,056

Item	Notes	2005 RMB'000	2004 RMB'000
1. Reconciliation of net profit to cash flows from operating activities			
Net profit		**792,566**	1,162,283
Add: Provision for assets impairment		**236,168**	1,136,149
Depreciation of fixed assets		**392,118**	207,105
Amortization of intangible assets		**16,004**	35,204
Amortization of long-term prepaid expenses		**—**	3,852
Decrease in prepaid expenses		**—**	990
Increase in accrued expenses (less: decrease)		**38,075**	(72,421)
Losses on disposal of fixed, intangible and other long-term assets		**—**	(136)
Losses on retirement of fixed assets		**3,558**	40,338
Finance expense		**167,779**	129,822
Losses on investment		**(919,713)**	(1,162,936)
Deferred tax debit		**—**	(10,005)
Decrease in inventories		**(335,921)**	1,060,307
Increase in operating receivable items		**(2,171,944)**	(2,972,220)
Increase in operating payable items		**1,444,741**	1,894,781
Others		**—**	—
Net cash flows from operating activities		**(336,569)**	1,453,113
2. Net increase in cash and cash equivalents			
Cash at end of year		**4,258,936**	6,463,165
Less: Cash at beginning of year		**6,463,165**	2,769,109
Add: Cash equivalents at end of year		**—**	
Less: Cash equivalents at beginning of year		**—**	
Net increase in cash and cash equivalents		**(2,204,229)**	3,694,056

Changes in accounting estimates

Save as discussed below, the accounting estimates adopted in these financial statements are consistent with those adopted in respect of the previous year.

It was resolved at the 16th board meeting that, effective from 1 January 2005, the Group has revised its method of making bad debt provision for amounts receivable taking into account actual circumstances and with reference to international practices as the method of bad debt provision for amounts receivable varies according to the credit rating and repayment profile of debtors. The Group is of the view that the revised bad debt provision method will more accurately reflect the financial conditions and operating results of an enterprise.

Prior to the change: bad debt provision is made, using ageing analysis, in respect of the balance of accounts receivable less amounts due from related companies and amounts for which there is concrete evidence for recoverability: The proportions concerned are as follows:

Age	**Proportion**
1–6 months	—
6–12 months	15%
12–18 months	50%
18–24 months	75%
Over 24 months	100%

After the change: specific bad debt provision shall be separately made in respect of accounts receivable for which there is direct evidence that impairment has occurred. Separate impairment tests shall be conducted in respect of individual account receivable with a significant amount or prolonged overdue period, and specific bad debt shall be made if there is objective evidence that impairment has occurred. For accounts receivable in respect of which no separate test has been carried out or no impairment has been recorded in separate test shall be consolidated into an asset portfolio that shows similar credit risk features for impairment tests and a specific bad debt provision will be made. The grading of credit risk and its corresponding empirical impairment ratios are differentiated and determined on the basis of with the current financial conditions of customers, historical trading records and overdue periods of accounts receivable.

As a result of the change in such accounting estimates, net profit and net assets of the Group increased by RMB145,920,000 and net profit and net asset of the company increased by RMB75,342,000.

II. ACCOUNTING STATEMENTS PREPARED IN ACCORDANCE WITH HKASs

Accounting statements prepared in accordance with HKASs

CONSOLIDATED INCOME STATEMENT
(Prepared in accordance with HKASs)

	Notes	Year ended 31 December 2005 RMB'000	2004 RMB'000 (Restated)
REVENUE	5	**21,575,920**	21,220,062
Cost of sales		**(14,101,720)**	(13,813,530)
Gross profit		**7,474,200**	7,406,532
Other income and gains		**681,646**	534,129
Research and development costs		**(1,959,543)**	(2,265,211)
Selling and distribution costs		**(3,186,442)**	(2,799,630)
Administrative expenses		**(1,095,400)**	(981,420)
Other operating expenses		**(128,605)**	(162,352)
Finance costs		**(175,884)**	(140,397)
Share of profits and losses of:			
Jointly-controlled entities		**(1,198)**	3,105
Associates		**(2,969)**	32
PROFIT BEFORE TAX	6	**1,605,805**	1,594,788
Tax	7	**(179,851)**	(114,954)
PROFIT FOR THE YEAR		**1,425,954**	1,479,834
ATTRIBUTABLE TO:			
Equity holders of the parent		**1,287,701**	1,272,489
Minority interests		**138,253**	207,345
		1,425,954	1,479,834
DIVIDENDS			
Proposed final	8	**239,880**	239,880
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	9	**RMB1.34**	RMB1.57

CONSOLIDATED BALANCE SHEET
(Prepared in accordance with HKASs)

	Notes	As at 31 December 2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,470,965**	1,935,131
Prepaid land premiums/land lease payments		**55,062**	53,095
Intangible assets		**335,835**	207,949
Goodwill		**—**	5,684
Investments in jointly-controlled entities		**6,588**	7,786
Investments in associates		**35,583**	8,845
Available-for-sale equity investments/long term investments		**43,288**	44,347
Long-term trade receivables	10	**307,666**	88
Factored long-term trade receivables		**687,765**	—
Deferred tax assets		**59,587**	104,681
Total non-current assets		**4,002,339**	2,367,606
CURRENT ASSETS			
Prepaid land premiums/land lease payments		**1,418**	1,361
Inventories		**2,240,327**	1,725,067
Amount due from customers for contract work		**4,689,157**	2,752,024
Trade and bills receivables	10	**4,686,775**	5,912,181
Factored trade receivables		**36,416**	—
Prepayments, deposits and other receivables		**1,188,313**	651,301
Loan receivables		**46,165**	—
Pledged bank deposits		**175,899**	88,978
Cash and cash equivalents		**5,397,233**	7,509,245
Total current assets		**18,461,703**	18,640,157
CURRENT LIABILITIES			
Trade and bills payables	11	**6,269,792**	4,341,111
Amount due to customers for contract work		**733,455**	2,318,731
Other payables and accruals		**2,900,137**	2,768,159
Interest-bearing bank borrowings		**599,695**	421,695
Bank advances on factored trade receivables		**36,416**	—
Tax payable		**114,672**	230,719
Dividend payables		**163,008**	40,921
Total current liabilities		**10,817,175**	10,121,336
NET CURRENT ASSETS		**7,644,528**	8,518,821
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,646,867**	10,886,427
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**80,000**	1,025,262
Bank advances on factored long-term trade receivables		**687,765**	—
Provision for retirement benefits		**30,459**	28,923
Other long-term payables		**127,402**	136,710
Total non-current liabilities		**925,626**	1,190,895
Net assets		**10,721,241**	9,695,532
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**959,522**	959,522
Reserves		**9,051,110**	8,017,750
Proposed final dividend		**239,880**	239,880
		10,250,512	9,217,152
Minority interests		**470,729**	478,380
Total equity		**10,721,241**	9,695,532

BALANCE SHEET
(Prepared in accordance with HKASs)

	Notes	As at 31 December 2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,718,547**	1,393,004
Prepaid land premiums/land lease payments		**49,406**	49,435
Intangible assets		**268,427**	159,835
Investments in subsidiaries		**408,868**	396,283
Investments in jointly-controlled entities		**2,500**	2,500
Investments in associates		**24,707**	4,013
Available-for-sale equity investments/long-term investments		**41,288**	40,264
Long-term trade receivables	10	**327,122**	—
Factored long-term trade receivables		**683,598**	—
Deferred tax assets		**55,113**	76,475
Total non-current assets		**3,579,576**	2,121,809
CURRENT ASSETS			
Prepaid land premiums/land lease payments		**1,300**	1,279
Inventories		**1,278,092**	1,203,430
Amount due from customers for contract work		**4,440,842**	3,414,540
Trade and bills receivables	10	**5,690,947**	6,256,867
Factored trade receivables		**5,007**	—
Prepayments, deposits and other receivables		**2,239,947**	1,224,398
Pledged bank deposits		**46,126**	44,512
Cash and cash equivalents		**4,212,810**	6,418,653
Total current assets		**17,915,071**	18,563,679
CURRENT LIABILITIES			
Trade and bills payables	11	**8,457,453**	6,748,602
Amount due to customers for contract work		**688,876**	2,162,901
Other payables and accruals		**2,590,981**	2,604,125
Interest-bearing bank borrowings		**500,000**	340,344
Bank advances on factored trade receivables		**5,007**	—
Tax payable		**63,974**	221,647
Dividend payables		**928**	920
Total current liabilities		**12,307,219**	12,078,539
NET CURRENT ASSETS		**5,607,852**	6,485,140
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,187,428**	8,606,949
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**—**	950,000
Bank advances on factored long-term trade receivables		**683,598**	—
Provision for retirement benefits		**30,459**	28,923
Other long-term payables		**81,111**	82,000
Total non-current liabilities		**795,168**	1,060,923
Net assets		**8,392,260**	7,546,026
EQUITY			
Issued capital		**959,522**	959,522
Reserves		**7,192,858**	6,346,624
Proposed final dividend		**239,880**	239,880
Total equity		**8,392,260**	7,546,026

NOTES TO THE FINANCIAL STATEMENTS

1. Impact of new and revised Hong Kong financial reporting standards

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations
HKAS INT-10	Government Assistance — No Specific Relation to Operating Activities(HKAS 20)
HKAS INT-13	Jointly Controlled Entities — Non-monetary Contributions by Venturers
HKAS INT-15	Operating Leases — Incentives
HKAS INT-21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKAS INT-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
HKAS INT-29	Disclosure — Service Concession Arrangements
HKFRS INT-4	Determining whether an Arrangement contains a Lease

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 23, 27, 28, 31, 33, 36, 37, 38, HKFRS 3, HKAS-INT-10, 13, 15, 21, 27, 29 and HKFRS-INT-4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates and jointly-controlled entities was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisitions results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisition subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) ***HKAS 17 — Leases***

In prior year, leasehold land and buildings held for own use was stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) ***HKAS 32 and HKAS 39 — Financial Instruments***

(i) *Equity securities*

In the prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB44,347,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

(ii) *Loans and receivables*

In the prior years, the Group used general provision to account for the provisions for trade and bills receivables.

Upon the adoption of HKAS 39, the Group has developed a specific doubtful debt provisioning policy based on the customers' credit rating and historical repayment records.

The effects of the above changes are summarised in note 6. In accordance with HKAS 39, comparative amounts have not been restated.

2. 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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market — Waste Electrical and Electronic Equipment
HK(IFRIC) — Int 7	Applying the Restatement Approach Under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC) — Int 5 and HK(IFRIC) — Int 6 do not apply to the activities of the Group. HK(IFRIC) — Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

3. Summary of the impact of changes in accounting policies

(a) *Effect on the consolidated balance sheet*

At 1 January 2005	Effect of adopting		
	HKAS 17#	**HKASs 32# and 39***	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments** *RMB'000*	**Change in classification of equity investments** *RMB'000*	**Total** *RMB'000*
Assets			
Property, plant and equipment	(54,456)	—	(54,456)
Prepaid land lease payments	54,456	—	54,456
Available-for-sale equity investments	—	44,347	44,347
Long term investments	—	(44,347)	(44,347)
			—

* Adjustment taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

At 31 December 2005	Effect of adopting			
	HKAS 17	**HKASs 32 and 39**	**HKAS39**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments** *RMB'000*	**Change in classification of equity investments** *RMB'000*	**Change in Accounting estimate for provision of bad debts** *RMB'000*	**Total** *RMB'000*
Assets				
Property, plant and equipment	(56,480)	—	—	(56,480)
Prepaid land lease payments	56,480	—	—	56,480
Trade and bills receivables	—	—	145,920	145,920
Available-for-sale equity investments	—	43,288	—	43,288
Long term investments	—	(43,288)	—	(43,288)
				145,920

(b) *Effect on the consolidated income statement for the years ended 31 December 2005 and 2004*

At 31 December 2005	Effect of adopting		
	HKAS1	**HKAS39**	
Effect of new policies	**Share of post-tax profits and losses of jointly controlled entities and associates** *RMB'000*	**Change in accounting estimates of provision of bad debts** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2005			
Decrease in other operating expenses	—	145,920	145,920
Total increase in profit	—	145,920	145,920
Increase in basic earnings per share	—	0.15	0.15
Year ended 31 December 2004			
Increase/(decrease) in share of profits and losses of jointly-controlled entities	(305)	—	(305)
Decrease in tax	305	—	305
Total increase/(decrease) in profit	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—

4. (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 2005 and 2004.

Group

	Wireless communications		**Wireline switch and access**		**Optical and data communications**		**Handsets**		**Telecommunications software systems, services and other products**		**Consolidated**	
	2005 *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000 (Restated)*
Segment revenue:												
Contract revenue from external customers	**8,930,836**	8,786,407	**2,752,570**	2,598,588	**3,352,980**	2,335,273	**—**	—	**1,943,428**	1,484,827	**16,979,814**	15,205,095
Sale of goods and services	**—**	—	**—**	—	**—**	—	**4,333,082**	6,014,967	**263,024**	—	**4,596,106**	6,014,967
Total	**8,930,836**	8,786,407	**2,752,570**	2,598,588	**3,352,980**	2,335,273	**4,333,082**	6,014,967	**2,206,452**	1,484,827	**21,575,920**	21,220,062
Segment results	**2,590,240**	2,654,012	**1,085,112**	1,150,138	**160,110**	258,586	**118,165**	(64,871)	**334,131**	609,038	**4,287,758**	4,606,903
Interest and unallocated gains											**681,646**	534,129
Unallocated expenses											**(3,183,548)**	(3,408,984)
Finance costs											**(175,884)**	(140,397)
Share of profit and losses of:												
Jointly-controlled entities											**(1,198)**	3,105
Associates											**(2,969)**	32
Profit before tax											**1,605,805**	1,594,788
Tax											**(179,851)**	(114,954)
Profit for the year											**1,425,954**	1,479,834

	Wireless communications		**Wireline switch and access**		**Optical and data communications**		**Handsets**		**Telecommunications software systems, services and other products**		**Consolidated**	
	2005 *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*
Assets and Liabilities												
Segment assets	**5,292,995**	3,975,515	**2,196,473**	1,319,962	**2,778,123**	1,624,418	**2,162,194**	2,460,313	**810,136**	740,563	**13,239,921**	10,120,771
Investments in jointly-controlled entities	**—**	—	**—**	—	**4,613**	4,035	**—**	—	**1,975**	3,751	**6,588**	7,786
Investments in associates	**—**	—	**—**	—	**—**	—	**—**	—	**35,583**	8,845	**35,583**	8,845
Unallocated assets											**9,181,950**	10,870,361
Total assets											**22,464,042**	21,007,763
Segment liabilities	**860,005**	1,486,801	**91,578**	407,707	**204,755**	275,238	**344,933**	248,998	**93,207**	148,985	**1,594,478**	2,567,729
Unallocated liabilities											**10,148,323**	8,744,502
Total liabilities											**11,742,801**	11,312,231
Other segment information:												
Depreciation and amortisation	**123,367**	106,452	**37,519**	22,906	**82,886**	50,605	**105,251**	70,939	**45,421**	30,255	**478,496**	361,003
Amortisation of goodwill	**—**	—	**—**	—	**—**	—	**—**	2,958	**—**	1,738	**—**	4,696
Capital expenditure	**371,525**	266,426	**112,990**	57,329	**249,611**	126,652	**316,966**	177,542	**136,788**	75,722	**1,187,880**	703,671

(b) Geographical segments

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

Group

	The PRC		Asia (excluding the PRC)		Africa		Others		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:										
Contract revenue from external customers	**10,838,079**	10,636,190	**3,428,396**	2,453,308	**2,576,744**	1,513,052	**136,595**	602,545	16,979,814	15,205,095
Sale of goods and services	**3,036,230**	6,008,332	**1,140,259**	6,635	**258,667**	—	**160,950**	—	4,596,106	6,014,967
	13,874,309	16,644,522	**4,568,655**	2,459,943	**2,835,411**	1,513,052	**297,545**	602,545	21,575,920	21,220,062

5. Revenue

An analysis of the Group's revenue:

	2005	2004
	RMB'000	*RMB'000*
Revenue		
Telecommunications systems contracts	**16,979,814**	15,205,095
Sale of goods and services	**4,596,106**	6,014,967
	21,575,920	21,220,062

6. Profit before tax

The Group's profit before tax is arrived at after charging:

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Cost of inventories sold	**13,373,519**	13,322,040
Depreciation	**394,444**	279,797
Less: Amount capitalised as deferred development costs	**(7,585)**	—
	386,859	279,797
Amortisation of intangible assets	**82,735**	79,846
Goodwill:		
Amortisation for the year*	**—**	4,696
Impairment arising during the year*	**56,267**	13,037
	56,267	17,733
Impairment of intangible assets	**—**	7,847
Loss on retirement and disposal of intangible assets	**70**	19,605
Provision for bad and doubtful debts*	**15,642**	100,027
Provision for warranties**	**225,790**	129,930
Provision against inventory obsolescence and net realisable value**	**96,185**	279,575
Minimum lease payments under operating leases on land and buildings	**188,905**	109,054
Auditors' remuneration	**4,870**	4,190
Staff costs (including directors' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfares	**2,601,779**	2,892,283
Pension scheme contributions:		
Defined benefits pension scheme	**2,224**	2,473
Defined contribution pension scheme	**187,081**	128,022
	2,791,084	3,022,778
Foreign exchange differences*	**48,390**	13,334
Loss on disposal of items of property, plant and equipment*	**6,163**	11,654
Loss on disposal of interests in subsidiaries*	**2,057**	—

* The amortisation and impairment of goodwill, provision for bad and doubtful debts, foreign exchange differences, loss on disposal of items of property, plant and equipment and loss on disposal of interests in subsidiaries are included in "Other operating expenses" on the face of the consolidated income statement.

** The provision for warranties and provision against inventory obsolescence and net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

7. Tax

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Group:		
Current — Hong Kong	**5,726**	5,735
Current — Mainland China		
Charge for the year	**34,700**	113,651
Overprovision in prior years	**—**	(52,513)
Current — Overseas	**94,331**	9,567
Deferred tax	**45,094**	38,514
Total tax charge for the year	**179,851**	114,954

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

No share of tax attributable to jointly-controlled entities is included in "Share of profit and losses of jointly-controlled entities" on the face of the consolidated income statement (2004: RMB305,000).

No share of tax attributable to associates is included in "Share of profit and losses of associates" on the face of the consolidated income statement (2004: Nil).

8. Dividends

	2005	2004
	RMB'000	*RMB'000*
Proposed final — RMB0.25 (2004: RMB0.25) per ordinary share	**239,880**	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.

9. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of RMB1,287,701,000 (2004: RMB1,272,489,000) and the weighted average number of 959,521,650 (2004: 810,759,661) ordinary shares in issue during the year.

No diluted earnings per share has been presented as the Company did not have any dilutive potential ordinary shares during the year.

10. Trade and bills receivables/long-term trade receivables

Progress payment for telecommunications systems contracts are normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 90 days and is extendable up to 2 years depending on customer's credit worthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	3,968,731	4,252,421	4,697,530	4,901,198
Between 7 to 12 months	701,656	1,453,143	840,424	1,116,903
1 to 2 years	313,288	194,940	428,519	193,718
2 to 3 years	10,551	5,609	11,872	43,213
Over 3 years	215	6,156	39,724	1,835
	4,994,441	5,912,269	6,018,069	6,256,867
Current portion of trade and bills receivables	(4,686,775)	(5,912,181)	(5,690,947)	(6,256,867)
Long-term portion	307,666	88	327,122	—

11. Trade and bills payables

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

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	6,049,126	4,180,450	8,418,896	6,688,650
Between 7 to 12 months	142,100	61,260	3,698	25,512
1 to 2 years	45,968	68,391	11,343	5,934
2 to 3 years	5,506	8,200	3,778	4,997
Over 3 years	27,092	22,810	19,738	23,509
	6,269,792	4,341,111	8,457,453	6,748,602