Consolidated Income Statement

	Note	2010	2009
		CNY'million	CNY'million
Revenue	2	185,176	149,059
Cost of sales		107,666	90,090
Gross profit		**77,510**	**58,969**
Research and development expenses		16,556	13,340
Selling, general and administrative expenses		30,996	24,169
Other operating expenses, net	3	687	408
Operating profit before financing costs		**29,271**	**21,052**
Net finance expenses / (income)	5	1,833	(1,255)
Share of losses of associates / jointly controlled entities		9	163
Profit before taxation		**27,429**	**22,144**
Income tax	6	3,672	3,870
Profit for the year		**23,757**	**18,274**
Attributable to:			
Equity holders of the Company		23,754	18,253
Non-controlling interests		3	21
Profit for the year		**23,757**	**18,274**

Consolidated Balance Sheet

	Note	2010	2009
		CNY'million	CNY'million
Assets			
Property, plant and equipment	8	9,323	8,317
Intangible assets	9	647	553
Trade and other receivables	13	116	-
Investments in associates and jointly controlled entities	10	305	311
Other non-current financial assets		64	108
Deferred tax assets	11	7,102	5,147
Other non-current assets		517	611
Non-current assets		**18,074**	**15,047**
Inventories	12	27,566	24,947
Trade and other receivables	13	68,809	63,282
Other financial assets		8,330	7,145
Cash and cash equivalents	14	38,062	29,232
Current assets		**142,767**	**124,606**
Total assets		**160,841**	**139,653**
Equity			
Equity attributable to equity holders of the Company		55,222	43,253
Non-controlling interests		29	63
Total equity		**55,251**	**43,316**
Liabilities			
Borrowings	15	8,955	8,490
Defined benefit post-employment obligations		5,950	3,512
Deferred government grants		1,319	933
Deferred tax liabilities	11	590	631
Non-current liabilities		**16,814**	**13,566**
Borrowings	15	2,685	7,887
Income tax payable		4,184	3,696
Trade and other payables	16	80,351	70,013
Provisions for warranties	18	1,556	1,175
Current liabilities		**88,776**	**82,771**
Total liabilities		**105,590**	**96,337**
Total equity and liabilities		**160,841**	**139,653**

Consolidated Statement of Cash Flow

	Note	2010	2009
		CNY'million	CNY'million
Cash flows from operating activities			
Cash receipts from customers		228,918	165,802
Cash paid to suppliers and employees		(196,952)	(141,411)
Other operating cash flows		(3,508)	(2,650)
Net cash from operating activities		**28,458**	**21,741**
Net cash used in investing activities		**(4,262)**	**(5,219)**
Net cash used in financing activities		**(14,907)**	**(8,384)**
Net increase in cash and cash equivalents		**9,289**	**8,138**
Cash and cash equivalents at January 1	14	29,232	21,013
Effect of foreign exchange rate changes		(459)	81
Cash and cash equivalents at December 31	14	**38,062**	**29,232**

Notes to the Consolidated Financial Statements Summary

1. Basis of preparation of consolidated financial statements summary and significant accounting policies of the Group

(a) Basis of preparation

Huawei Technologies Co., Ltd. (the "Company") and its subsidiaries (the "Group") have prepared a full set of consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2010 in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

This consolidated financial statements summary has been prepared and presented based on the audited consolidated financial statements for the year ended December 31, 2010 by disclosing material operating and financial information. The intended users of the summary financial statements can obtain access to the audited consolidated financial statements for the year ended December 31, 2010 upon consent of the Group's Management through the email address, information@huawei.com

(b) Functional and presentation currency

All financial information in the consolidated financial statements summary is presented in Chinese Yuan, which is the Company's functional currency. All financial information presented in Chinese Yuan has been rounded to the nearest million.

(c) Translation of foreign currencies

i) Foreign currency transactions

Transactions in foreign currency during the year are translated to the respective functional currencies of group entities at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rates at that date. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

ii) Foreign operations

The results of foreign operations, except for foreign operations in hyperinflationary economies, are translated into Chinese Yuan at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Chinese Yuan at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest.

The results of foreign operations in hyperinflationary economies are translated to Chinese Yuan at the exchange rate ruling at the balance sheet date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current year are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the balance sheet date.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 1(f)).

(e) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the equity holder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling equity holder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain / loss arising is recognised directly in equity.

(f) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to Nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(g) Investment properties

Investment properties are buildings which are owned to earn rental income and /or for capital appreciation.

Investment properties are stated in the consolidated balance sheet at cost less depreciation and impairment losses (see note 1(k)). Rental income from investment properties is accounted for as described in note 1(u)(iv).

Depreciation is calculated to write off the cost of buildings, less their estimated residual value, using the straight line method over their estimated useful life.

(h) Other property, plant and equipment

i) Recognition and measurement

Items of property, plant and equipment are measured in the consolidated balance sheet at cost less accumulated depreciation (see below) and impairment losses (see note 1(k)). Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use. No depreciation is provided against construction in progress.

ii) Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii) Depreciation
Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Both the useful life of an item of property, plant and equipment and its residual value, if any, are reviewed annually.

(i) Intangible assets

i) Research and development
Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as assets are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in profit or loss in the period in which they are incurred.

ii) Other intangible assets
Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

iii) Amortisation
Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group
Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and

rewards of ownership to the Group are classified as operating leases.

ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Impairment of assets

i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enterbankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and jointly controlled entities recognised using the equity method (see note 1(f)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- long term prepayments; and
- intangible assets

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment loss

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the standard cost method with periodical adjustments of cost variance to arrive at the actual cost, which approximates actual cost on a first-in first-out basis. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an assets or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(u)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the consolidated balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the consolidated balance sheet under "Trade and other receivables". Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as "Trade and other payables".

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(k)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and call deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Employee benefits

i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses and contributions to defined contribution retirement plans are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Defined benefit plan obligations

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by management using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, any actuarial gain or loss is recognised in profit or loss immediately.

(s) Provisions and contingent liabilities

i) Provision for product warranties

The Group provides warranty on its products for a period typically covers 12 to 24 months. The warranty generally includes parts, labour and service centre support. The Group estimates the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time revenue is recognised. Factors that affect the Group's warranty liability include the number of installed units, historical and anticipated rates of warranty claims. The Group periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods and services rendered

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer. Revenue from provision of services is recognised at the time when the services are provided. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

iii) Government grants

Government grants are recognised in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently are effectively recognised in profit or loss on a systematic basis over the useful life of the asset.

iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Finance income and expenses

Finance income comprises dividend and interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets held for trading. Interest income is recognised as it accrues using the effective interest method. Dividend income from unlisted investments is recognised when the equity holder's right to receive payment is established; dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Foreign currency gains and losses are reported on a net basis.

(w) Without recourse factoring expenses

Factoring without recourse constitutes transfer of trade receivables. The Group transfers its trade receivables to banks or financial institutes; the bank or the financial institute fully bears the collection risk without the right to receive payments from the Group in the event a loss occurs due to the non-collectibility of the receivables transferred. The Group's customers make payments of the receivables transferred directly to the bank or the financial institute.

In a factoring without recourse, trade receivables transferred are derecognised from the consolidated balance sheet. Excess of carrying amount of trade receivables over cash received from the banks or financial institutes arising from factoring without recourse is included in the "Other operating expenses" of the consolidated income statement.

2. Revenue

	2010	2009
	CNY 'million	CNY 'million
Sales of goods	153,541	124,493
Services	31,507	24,499
Rental income	128	67
	185,176	149,059

3. Other operating expenses, net

	2010	2009
	CNY 'million	CNY 'million
Without recourse factoring expenses	1,401	727
Government grants	(593)	(273)
Others	(121)	(46)
	687	408

Government grants

During the year, the Group received unconditional government grants of CNY433,555,000 in respect of its contributions to the development of research and innovation in the PRC (2009: CNY251,006,000). These grants were directly recognised in profit or loss .

For the year ended December 31, 2010, the Group received grants of CNY545,239,000 (2009: CNY328,445,000) which were conditional upon completion of certain research and development projects. These grants were initially recognised in the consolidated balance sheet as deferred government grants and amortised through the consolidated income statement on a systematic basis in the same periods in which the related research and development expenses are incurred. During 2010, CNY159,024,000 of conditional government grants were recognised in profit or loss (2009: CNY22,296,000).

4. Personnel expenses

	2010	2009
	CNY 'million	CNY 'million
Expenses recognised in respect of defined benefit plan	2,893	1,615
Contributions to defined contribution plans	2,725	2,067
Total post-employment plan cost	5,618	3,682
Salaries, wages and other benefits	25,046	21,134
	30,664	24,816

5. Net finance expenses / (income)

	2010	2009
	CNY 'million	CNY 'million
Net foreign exchange loss / (gain)	1,236	(1,642)
Other net finance expenses	597	387
	1,833	(1,255)

6. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	2010	2009
	CNY 'million	CNY 'million
Current tax		
PRC enterprise income tax		
- current year	3,981	3,119
- under / (over) - provision in respect of prior years	109	(70)
Overseas tax		
- current year	1,625	1,554
- (over) / under - provision in respect of prior years	(76)	94
	5,639	4,697
Deferred tax		
Origination and reversal of temporary differences	(1,967)	(827)
	3,672	3,870

7. Segment reporting

The Group has two regional segments, which are China and Overseas segments, determined based on its internal management requirements. The Group also divides its business segments in accordance with the types of products and services as follows:

- **Telecom Networks:**
  Radio Access Network, Network, Core Network, Application & Software and Site Solutions
- **Global Services:**
  System Integration Solution, Assurance Service Solution and Learning Solution
- **Devices:**
  Mobile Broadband Devices, Handsets, Convergence Devices and Video Solutions

Each reportable segment is managed separately because each requires different technological and marketing strategies. The financial information of the different segments is regularly reviewed by the Group's management to make decisions about resources to be allocated to each segment and assess its performance.

Revenue information in respect of geographical segments

	2010	2009
	CNY 'million	CNY 'million
China	64,771	59,038
Overseas	120,405	90,021
Total	185,176	149,059

Revenue information in respect of business segments

	2010	2009
	CNY 'million	CNY 'million
Telecom Networks	122,921	99,943
Global services	31,507	24,499
Devices	30,748	24,617
Total	185,176	149,059

8. Property, plant and equipment

	Land and Buildings	Machinery, electronic equipment and other equipment	Motor vehicles	Construction in progress	Investment properties	Decoration and leasehold improvements	Total
	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million	CNY'million
Cost:							
At January 1, 2009	2,921	9,013	381	839	434	1,755	15,343
Exchange adjustment	3	38	3	-	-	8	52
Additions	159	1,650	48	1,252	-	171	3,280
Transfer from construction in progress	1	48	-	(49)	-	-	-
Disposals	(2)	(786)	(81)	-	-	(42)	(911)
At December 31, 2009	3,082	9,963	351	2,042	434	1,892	17,764
At January 1, 2010	3,082	9,963	351	2,042	434	1,892	17,764
Exchange adjustment	(6)	(113)	(20)	(4)	-	(13)	(156)
Additions	23	1,848	78	1,277	-	201	3,427
Transfer from construction in progress	959	583	-	(2,206)	-	664	-
Disposals	(3)	(1,337)	(42)	-	-	(28)	(1,410)
At December 31, 2010	4,055	10,944	367	1,109	434	2,716	19,625
Depreciation:							
At January 1, 2009	705	5,511	217	-	192	1,433	8,058
Exchange adjustment	2	7	(1)	-	-	5	13
Depreciation charge for the year	162	1,628	59	-	24	215	2,088
Disposals	(2)	(614)	(67)	-	-	(29)	(712)
At December 31, 2009	867	6,532	208	-	216	1,624	9,447
At January 1, 2010	867	6,532	208	-	216	1,624	9,447
Exchange adjustment	(1)	(43)	(10)	-	-	(4)	(58)
Depreciation charge for the year	178	1,404	51	-	24	233	1,890
Disposals	-	(921)	(34)	-	-	(22)	(977)
At December 31, 2010	1,044	6,972	215	-	240	1,831	10,302
Carrying amounts:							
At December 31, 2009	2,215	3,431	143	2,042	218	268	8,317
At December 31, 2010	3,011	3,972	152	1,109	194	885	9,323

Investment properties
The Group is engaged in the manufacturing, sales and marketing of telecommunication equipment and the provision of related services. Beginning from January 1, 2004, it leased certain buildings to an ex-subsidiary and a former related company. Such buildings are classified as investment properties.

The carrying value of investment properties as at December 31, 2010 is CNY194,160,000 (2009: CNY217,733,000). The fair value of investment properties as at December 31, 2010 is estimated by the directors to be CNY322,328,000 (2009: CNY358,745,000). The fair value is calculated by management based on the discounted cash flows analyses.

The fair value of investment properties is determined by the Group internally by reference to market conditions and discounted cash flow forecasts. The Group's current lease agreements, which were entered into on an arm's-length basis, were taken into account.

9. Intangible assets

	Software	Patents	Trademark	Total
	CNY'million	CNY'million	CNY'million	CNY'million
Cost:				
At January 1, 2009	163	476	24	663
Additions	542	131	1	674
Disposals	(8)	-	-	(8)
At December 31, 2009	697	607	25	1,329
At January 1, 2010	697	607	25	1,329
Additions	278	76	1	355
Disposals	(4)	(1)	-	(5)
At December 31, 2010	971	682	26	1,679
Amortisation:				
At January 1, 2009	155	362	20	537
Amortisation for the year	205	41	1	247
Disposals	(8)	-	-	(8)
At December 31, 2009	352	403	21	776
At January 1, 2010	352	403	21	776
Amortisation for the year	232	27	1	260
Disposals	(4)	-	-	(4)
At December 31, 2010	580	430	22	1,032
Carrying amounts:				
At December 31, 2009	345	204	4	553
At December 31, 2010	391	252	4	647

10. Investments in associates and jointly controlled entities

The Group has the following investment in associates:

Name of associate	Form of business structure	Country / region	Proportion of ownership interest		Principal activity
			2010	2009	
TD Tech Holding Limited	Incorporated	Hong Kong	49%	49%	Research and development, production and sale of TD-SCDMA telecommunication products
Industria Electrónica Orinoquia S.A.	Incorporated	Caracas, Venezuela	35%	35%	Research and development, production and sale of telecommunication terminals

The Group's unrecognised share of losses for the year ended December 31, 2010 and cumulative post-acquisition losses as at that date in the above associate was Nil (2009: Nil) and Nil (2009: Nil), respectively.

Summary financial information on the associates:

		Assets	Liabilities	Equity	Revenues	Profit
		CNY 'million	CNY 'million	CNY 'million	CNY 'million	CNY 'million
2010	100 percent	1,460	1,086	374	4,135	149
2009	100 percent	1,089	866	223	5,096	610

Details of the Group's interest in the jointly controlled entities are as follows:

Name of jointly controlled entity	Form of business structure	Country / region	Proportion of ownership percentage	Principal activity
Huawei Symantec Technologies Co., Limited ("Huawei Symantec")	Incorporated	Hong Kong	51%	Research and development, production and sale of network storage and security products
Huawei Marine Systems Co., Limited ("Huawei Marine")	Incorporated	Hong Kong	51%	Construction and operation of submarine fibres

Summary financial information on jointly controlled entities - Group's effective interest:

	2010	2009
	CNY 'million	CNY 'million
Non-current assets	43	39
Current assets	925	787
Non-current liabilities	(7)	(2)
Current liabilities	(699)	(489)
Net assets	262	335
Income	1,676	1,011
Expenses	(1,740)	(1,175)
Loss for the year	(64)	(164)

11. Deferred tax assets and liabilities

	2010	2009
	CNY 'million	CNY 'million
Accrual and provision	3,662	2,810
Property, plant and equipment	184	140
Impairment	796	545
Unrealised profit	2,267	1,631
Tax losses	76	1
Undistributed profits of subsidiaries	(466)	(493)
Other deductible differences	118	20
Other taxable differences	(125)	(138)
Total	6,512	4,516

12. Inventories

	2010	2009
	CNY 'million	CNY 'million
Raw materials	6,471	4,667
Work in progress	2,697	2,090
Finished goods	5,726	5,250
Goods delivered but not completely installed	12,672	12,940
	27,566	24,947

The analysis of amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010	2009
	CNY 'million	CNY 'million
Carrying amount of inventories sold	84,466	71,666
Write down of inventories	998	598
	85,464	72,264

13. Trade and other receivables

	2010	2009
	CNY 'million	CNY 'million
Trade receivables	48,110	51,875
Gross amount due from customers for contract work	7,004	4,253
Non-trade receivables	13,811	7,154
	68,925	63,282
Non-current	116	-
Current	68,809	63,282
	68,925	63,282

Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against the trade receivables directly (see note 1(k)).

The movement in the allowance for impairment losses in respect of trade receivables during the year is as follows:

	2010	2009
	CNY 'million	CNY 'million
At January 1	4,341	4,701
Impairment loss recognised and reversed during the year	2,927	648
Uncollectible amounts written off	(3,125)	(1,008)
At December 31	4,143	4,341

14. Cash and cash equivalents

	2010	2009
	CNY 'million	CNY 'million
Deposits with banks	5,595	1,843
Cash and bank balances	32,467	27,389
Cash and cash equivalents in the consolidated balance sheet and the consolidated cash flow statement	38,062	29,232

15. Borrowings

Terms and conditions of outstanding loans were as follows:

	Total	1 year or less	1 to 5 years
	CNY 'million	CNY 'million	CNY 'million
Intra - group guaranteed bank loans:			
EUR - variable at 1.83%	606	-	606
USD - variable at 0.94% ~ 1.66%	5,616	991	4,625
LKR - variable at 10.92% ~ 14%	26	26	-
USD - fixed at 4.33%	2,973	-	2,973
ZAR - fixed at 14%	1	-	1
INR - fixed at 8.52% ~ 10.67%	1,038	1,038	-
	10,260	2,055	8,205
Unsecured bank loans:			
CNY - variable at 4.82% ~ 5.35%	1,380	630	750
	11,640	2,685	8,955

The carrying amount of the above loans and borrowings approximates their fair value.

All of the Group's bank facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending agreements with banks. If the Group were to breach the covenants, the draw down facilities would become payable on demand. As at December 31, 2010, none of the covenants relating to draw down facilities had been breached (2009: Nil).

16. Trade and other payables

	2010	2009
	CNY 'million	CNY 'million
Trade payables	34,299	28,393
Bills payables	5,749	13,690
Gross amount due to customers for contract work	2,023	781
Non-trade payables and accrued expenses	38,280	27,149
	80,351	70,013

17. Construction contracts

The aggregate amount of costs incurred plus recognised profits less recognised losses to date for the Group, included in the gross amount due from / to customers for contract work at December 31, 2010, is CNY46,008,688,000 (2009: CNY29,405,852,000).

18. Provisions and contingencies

(a) Provision for product warranties

	2010	2009
	CNY 'million	CNY 'million
Balance at January 1	1,175	1,274
Provision made during the year	1,962	1,842
Provision used during the year	(1,581)	(1,941)
Balance at December 31	1,556	1,175

The provision for warranties relates primarily to equipment sold during the year. The provision is determined based on estimates made from historical warranty data associated with similar products and services and anticipated rates of warranty claims for its products. The Group expects to settle majority of the liability within the next twelve months.

(b) Litigation

On 16 July 2010, Motorola, Inc. ("Motorola") filed a lawsuit and alleged that the Company has misappropriated Motorola's trade secret. The case is at preliminary stage, but the Company believes the claim is without merit and will defend this action vigorously. The Company is unable, however, to predict the outcome of the case, or reasonably estimate a range of possible loss, if any, given the current status of the litigation. No accrual has been recorded by the Company as at December 31, 2010 in respect of this case.

19. Operating leases

(a) Leases as lessee

Non-cancellable operating leases are payable as follows:

	2010	2009
	CNY 'million	CNY 'million
Less than one year	244	305
Between one and five years	230	200
Above five years	1	83
	475	588

The Group leases a number of warehouses, factory facilities, office premises and staff apartments. The leases typically run for an initial period less than five years. None of the leases includes contingent rentals.

During the year ended December 31, 2010, CNY1,892,136,000 was recognised as an expense in profit or loss in respect of operating leases (2009: CNY1,786,628,000).

(b) Leases as lessor

The Group leases out certain of its properties under operating leases (see note 2). Non-cancellable operating lease rentals are receivable as follows:

	2010	2009
	CNY 'million	CNY 'million
Less than one year	47	42
Between one and five years	67	58
Above five years	-	1
	114	101

During the year ended December 31, 2010, CNY127,979,000 was recognised as rental income in profit or loss (2009: CNY66,836,000).

20. Capital commitments

(a) Acquisition and construction of buildings

Capital commitments of the Group in respect of acquisition and construction of buildings are summarised as follows:

	2010	2009
	CNY 'million	CNY 'million
Contracted for	1,431	1,469
Authorised but not contracted for	770	291
	2,201	1,760

(b) Other capital commitments

During the year ended December 31, 2010, the Group entered into a contract to purchase debt securities to be issued by a foreign company for CNY137,360,000 (2009: Nil).