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# **ZTE中兴**

## **ZTE CORPORATION**

### **中兴通讯股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 763)**

## **2013 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 there are no false information and misleading statements in the 2013 annual report (the “Annual Report”) nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

The Annual Report containing all information required to be presented in annual reports in accordance with Appendix 16 to the Rules (the “Hong Kong Stock Exchange Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) will be posted on the website of the Hong Kong Stock Exchange ([www.hkexnews.com.hk](http://www.hkexnews.com.hk)) and the Company’s website ([www.zte.com.cn](http://www.zte.com.cn)) in due course.

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

1.3 The Annual Report has been considered and approved at the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf.

1.4 The respective financial statements of ZTE and its subsidiaries (“the Group”) for the year ended 31 December 2013 were prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”) and with Hong Kong Financial Reporting Standards (“HKFRSs”) respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors’ report has been issued by each of them.

1.5 During the year, there was no significant deficiency in internal control in relation to financial reporting of the Company, nor was any significant deficiency in internal control in relation to non-financial reporting identified.

1.6 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, accuracy and completeness of the financial reports contained in the Annual Report.

1.7 In view of the state of affairs of the Company, profit distribution for 2013 by way of cash dividend of RMB0.3 (before tax) for every 10 shares held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2013 has been proposed. The aforesaid matter shall require consideration and approval at the general meeting.

## 2. CORPORATE PROFILE

### 2.1 Corporate Information

<b>Abbreviated name of stock</b>	ZTE	
<b>Stock code</b>	000063 (A Shares)	763 (H Shares)
<b>Abbreviated name of bond (code)</b>	中興債1 (115003)	12中興01 (112090)
	maturity on 30 January 2013	
<b>Place of listing</b>	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
<b>Registered and office address</b>	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China	
<b>Postal code</b>	518057	
<b>Principal place of business in Hong Kong</b>	8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong	
<b>Website</b>	<a href="http://www.zte.com.cn">http://www.zte.com.cn</a>	
<b>E-mail</b>	<a href="mailto:fengjianxiong@zte.com.cn">fengjianxiong@zte.com.cn</a>	

### 2.2 Contact Persons and Correspondence

	<b>Authorized representatives</b>	<b>Secretary to the Board of Directors/Company Secretary</b>	<b>Securities Affairs Representatives</b>
<b>Name</b>	Shi Lirong, Feng Jianxiong	Feng Jianxiong	Xu Yulong, Cao Wei
<b>Address</b>	No. 55, Keji Road South, Shenzhen, Guangdong Province, the People's Republic of China		
<b>Tel</b>	+86 755 26770282		
<b>Fax</b>	+86 755 26770286		
<b>E-mail</b>	<a href="mailto:fengjianxiong@zte.com.cn">fengjianxiong@zte.com.cn</a>		

### 3. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

**Whether the Company has made retrospective adjustments to or restated accounting data of the previous year because of changes in accounting policies or for the rectification of significant accounting errors**

√ Yes   □ No

#### **PRC ASBEs**

In January to February 2014, the Ministry of Finance formulated and promulgated “ASBE No. 39 — Fair Value Measurement”, “ASBE No. 40 — Joint Venture Arrangements”, amended and promulgated “ASBE No. 30 — Presentation of Financial Statements”, “ASBE No. 9 — Employees’ Remuneration” and “ASBE No. 33 — Consolidated Financial Statements”. The five aforesaid accounting standards will come into effect on 1 July 2014, although overseas listing enterprises are encouraged to bring forward their implementation. As a company simultaneously listed in China and Hong Kong, the Company adopted the five aforesaid accounting standards in the preparation of its 2013 financial statements. Changes in the accounting policies of the Company as a result of changes in the aforesaid accounting standards have been reflected in 2013, and the corresponding figures for 2012 have also been retrospectively adjusted. The adjustments have only affected the items of long-term employee remuneration payable and capital reserves in the balance sheet, but have had no impact on profit and loss. For details, please refer to “Note II. Principal Accounting Policies and Accounting Estimates — 2. Adoption of certain revised/new accounting standards” to the financial report prepared in accordance with PRC ASBEs in the Annual Report.

#### **HKFRSs**

Please refer to the section 2. Changes in accounting policies and disclosures in Appendix 2: Financial statements prepared in accordance with HKFRSs and notes thereto of this annual report and results announcement.

#### **3.1 Major accounting data of the Group for the past three years prepared in accordance with PRC ASBEs**

*Unit: RMB in millions*

<b>Item</b>	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2012</b>		<b>Year-on-year change</b>	<b>For the year ended 31 December 2011</b>
		<b>(Restated)</b>	<b>Year-on-year change</b>		
Operating revenue	<b>75,233.7</b>	84,118.9	(10.56%)	86,254.5	
Operating profit	<b>(1,493.1)</b>	(5,002.2)	70.15%	429.5	
Total profit	<b>1,827.8</b>	(1,983.2)	192.16%	2,635.1	
Net profit attributable to shareholders of the listed company	<b>1,357.6</b>	(2,840.9)	147.79%	2,060.2	
Net profit after extraordinary items attributable to shareholders of the listed company	<b>73.0</b>	(4,190.5)	101.74%	1,067.2	
Net cash flow from operating activities	<b>2,574.6</b>	1,550.0	66.10%	(1,812.2)	

Unit: RMB in millions

Item	As at 31 December 2013	As at 31 December 2012 (Restated)		Year-on- year change (after adjustment)	As at 31 December 2011	
		Prior to adjustment	After adjustment		Prior to adjustment	After adjustment
Total assets	<b>100,079.5</b>	107,446.3	107,446.3	(6.86%)	105,368.1	105,368.1
Total liabilities	<b>76,453.8</b>	84,807.6	84,853.5	(9.90%)	79,079.3	79,133.6
Owners' equity attributable to shareholders of the listed company	<b>22,532.7</b>	21,502.5	21,456.6	5.02%	24,231.7	24,177.4
Share capital ( <i>million shares</i> )	<b>3,437.5</b>	3,440.1	3,440.1	(0.08%)	3,440.1	3,440.1

### 3.2 Major financial indicators of the Group for the past three years prepared in accordance with PRC ASBEs

Item	For the year ended 31 December 2013	For the year ended 31 December 2012 (Restated)		Year-on- year change (after adjustment)	For the year ended 31 December 2011	
		Prior to adjustment	After adjustment		Prior to adjustment	After adjustment
Basic earnings per share ( <i>RMB/share</i> ) <sup>Note 1</sup>	<b>0.39</b>	(0.83)	(0.83)	146.99%	0.61	0.61
Diluted earnings per share ( <i>RMB/share</i> ) <sup>Note 2</sup>	<b>0.39</b>	(0.83)	(0.83)	146.99%	0.61	0.61
Basic earnings per share after extraordinary items ( <i>RMB/share</i> ) <sup>Note 1</sup>	<b>0.02</b>	(1.22)	(1.22)	101.64%	0.31	0.31
Weighted average return on net assets (%)	<b>6.17%</b>	(12.43%)	(12.46%)	Increased by 18.63 percentage points	8.74%	8.76%
Weighted average return on net assets after extraordinary items (%)	<b>0.33%</b>	(18.34%)	(18.38%)	Increased by 18.71 percentage points	4.53%	4.54%
Net cash flow from operating activities per share ( <i>RMB/share</i> ) <sup>Note 3</sup>	<b>0.75</b>	0.45	0.45	66.67%	(0.53)	(0.53)

Item	As at 31 December 2013	As at 31 December 2012 (Restated)		Year-on- year change (after adjustment)  Decreased by 2.58 percentages points	As at 31 December 2011	
		Prior to adjustment	After adjustment		Prior to adjustment	After adjustment
Net asset per share attributable to shareholders of the listed company ( <i>RMB/share</i> ) <sup>Note 3</sup>	<b>6.55</b>	6.26	6.24	4.97%	7.06	7.05
Gearing ratio (%)	<b>76.39%</b>	78.93%	78.97%		75.05%	75.10%

*Note 1:* Basic earnings per share for the reporting period was calculated on the basis of the total share capital as at the end of the period. Basic earnings per share for 2012 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. Basic earnings per share for 2011 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up.

*Note 2:* As share options granted by the Company during the reporting period have given rise to 1,767,000 potentially dilutive ordinary shares, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor. As certain Subject Share quotas remaining in lock-up under the Phase I Share Incentive Scheme of the Company have given rise to 0 and 6,874,194 potentially dilutive ordinary shares for 2012 and 2011, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors.

*Note 3:* Net cash flow from operating activities per share and net asset per share attributable to shareholders of the listed company for 2013 were calculated on the basis of the total share capital at the end of the period. The corresponding indicators for 2012 were calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. The corresponding indicators for 2011 were calculated on the basis of the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up.

### 3.3 Extraordinary items and amounts of the Group for the past three years prepared in accordance with PRC ASBEs

*Unit: RMB in millions*

Item	Amount for the year ended 31 December 2013	Amount for the year ended 31 December 2012	Amount for the year ended 31 December 2011
Non-operating income	<b>594.2</b>	559.6	362.9
Gains/(losses) from fair value change	<b>204.0</b>	(107.4)	(88.7)
Investment gains	<b>857.7</b>	1,197.7	982.2
Add: Others	—	—	74.8
Less: Gains/losses arising from the disposal of non-current assets	<b>18.1</b>	19.4	30.6
Less: Other non-operating expenses	<b>126.4</b>	42.8	132.4
Less: Effect of income tax	<b>226.7</b>	238.1	175.2
Total	<b>1,284.7</b>	1,349.6	993.0

### 3.4 Accounting information prepared in accordance with HKFRSs

#### 3.4.1 Major financial information of the Group for the past five years prepared in accordance with HKFRSs

Unit: RMB in millions

Results	Year ended 31 December				2009
	2013 (Restated)	2012	2011 (Restated)	2010	
Revenue	<b>75,233.7</b>	84,118.9	86,254.5	69,906.7	60,272.6
Cost of sales	<b>(54,775.1)</b>	(65,545.5)	(62,086.4)	(48,241.8)	(41,667.8)
Gross profit	<b>20,458.6</b>	18,573.4	24,168.1	21,664.9	18,604.8
Other income and gains	<b>4,905.3</b>	4,609.2	3,664.4	2,639.8	1,723.5
Research and development costs	<b>(7,383.9)</b>	(8,829.2)	(8,492.6)	(7,092.0)	(5,781.6)
Selling and distribution expenses	<b>(10,158.5)</b>	(11,340.9)	(11,112.2)	(8,890.2)	(7,157.8)
Administrative expenses	<b>(2,258.7)</b>	(2,449.2)	(2,605.6)	(2,524.0)	(2,735.2)
Other expenses	<b>(2,119.1)</b>	(706.1)	(1,684.1)	(753.8)	(603.2)
Profit from operating activities	<b>3,443.7</b>	(142.8)	3,938.0	5,044.7	4,050.5
Finance costs	<b>(1,650.4)</b>	(1,888.5)	(1,374.2)	(728.6)	(751.7)
Share of profit and loss of joint ventures and associates	<b>34.5</b>	48.1	71.3	44.1	26.0
Profit before tax	<b>1,827.8</b>	(1,983.2)	2,635.1	4,360.2	3,324.8
Income tax expense	<b>(394.2)</b>	(621.4)	(392.0)	(883.7)	(629.1)
Profit before non-controlling interests	<b>1,433.6</b>	(2,604.6)	2,243.1	3,476.5	2,695.7
Attributable to:					
Non-controlling interests	<b>(76.0)</b>	(236.3)	(182.9)	(226.3)	(237.6)
Attributable to:					
Shareholders of parent company	<b>1,357.6</b>	(2,840.9)	2,060.2	3,250.2	2,458.1

Unit: RMB in millions

Assets and liabilities	At 31 December				
	2013	2012	2011	2010	2009
	(Restated)	(Restated)			
Total assets	<b>102,473.0</b>	109,911.5	107,784.1	85,509.2	69,464.9
Total liabilities	<b>78,847.3</b>	87,318.7	81,549.6	60,547.2	51,516.0
Non-controlling interests	<b>1,093.0</b>	1,136.3	2,057.1	1,868.1	1,123.6
Shareholders' equity attributable to parent company	<b>22,532.7</b>	21,456.5	24,177.4	23,093.9	16,825.3

3.4.2 Major financial indicators of the Group for the past five years prepared in accordance with HKFRSs

Item	At 31 December				
	2013	2012	2011	2010	2009
	(Restated)	(Restated)			
Basic earnings per share (RMB/share) <sup>Note 1</sup>	<b>0.39</b>	(0.83)	0.61	0.98	0.78
Net asset per share (RMB/share) <sup>Note 2</sup>	<b>6.55</b>	6.24	7.05	6.87	5.31
Fully diluted return on net assets (%)	<b>6.03%</b>	(13.24%)	8.52%	14.07%	14.61%

Note 1: Basic earnings per share for the reporting period was calculated on the basis of the total share capital as at the end of the period. Basic earnings per share for 2012 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company.

Note 2: Net asset per share attributable to shareholders of the listed company for 2013 was calculated on the basis of the total share capital as at the end of the period. The corresponding indicators for 2012 were calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company.

3.5 The amounts of net profit and net assets of the Group for the year ended and as at 31 December 2013 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

#### 4. SHAREHOLDINGS OF THE SHAREHOLDERS AND FRAMEWORK OF CONTROL

##### 4.1 Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up at the end of the year

<b>As at 31 December 2013</b>	<b>Total number of shareholders</b>
	168,300 shareholders (of which 167,944 were holders of A shares and 356 were holders of H shares)
<b>As at 20 March 2014, namely 5 trading days prior to the publication of this annual report summary and results announcement</b>	180,163 shareholders (of which 179,808 were holders of A shares and 355 were holders of H shares)

##### Shareholdings of top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/decrease during the reporting period	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Shenzhen Zhongxingxin Telecommunication Equipment Company Limited (“Zhongxingxin”)	State-owned shareholders	30.78%	1,058,191,944	0	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.28%	628,307,572	-50,029	0	Unknown
3. CITIC Trust Co., Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	0	Unknown
4. Hunan Nantian (Group) Co., Ltd.	State-owned shareholders	1.09%	37,450,609	0	0	Unknown
5. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Stock Fund (LOF)	Others	0.93%	32,030,216	+32,030,216	0	Unknown
6. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	0.86%	29,722,990	-51,436,647	0	Unknown
7. NSSF Portfolio #116	Others	0.81%	28,000,000	+28,000,000	0	Unknown
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.72%	24,696,385	-9,230,192	0	Unknown
9. China Minsheng Bank — Yinhua SZSE 100 Classified Stock Fund	Others	0.65%	22,265,510	+2,688,752	0	Unknown
10. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	0.63%	21,500,000	-37,543,306	0	Unknown



## Shareholdings of top ten holders that were not subject to lock-up

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,307,572	H shares
3. CITIC Trust Co., Ltd. — Wealth Management 06	58,194,000	A shares
4. Hunan Nantian (Group) Co., Ltd.	37,450,609	A shares
5. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Stock Fund (LOF)	32,030,216	A shares
6. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	29,722,990	A shares
7. NSSF Portfolio #116	28,000,000	A shares
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	24,696,385	A shares
9. China Minsheng Bank — Yinhua SZSE 100 Classified Stock Fund	22,265,510	A shares
10. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	21,500,000	A shares

- Descriptions of any connected party relationships or concerted party relationships among the above shareholders
1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares that were not subject to lock-up listed above.
  2. The 6th and 8th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited.
  3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.

*Note 1:* During the year, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

*Note 2:* Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.78% of the Company's shares, during the year are as follows:

Name of shareholder	Increase/decrease (+/-) of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	0	1,058,191,944	A shares	0	1,058,191,944	Nil

## Whether shareholders of the Company conducted any transactions on agreed repurchases during the reporting period

Yes  No

*Note:* During the reporting period, the top ten shareholders and top ten holders of shares that were not subject to lock-up of the Company were not engaged in any transactions on agreed repurchases.

### 4.2 Controlling shareholder of the Company

During the year, there was no change in the Company's controlling shareholder, details of which are as follows:

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Organisation number:	19222451-8
Registered capital:	RMB100 million
Scope of business:	Production of SPC switch cabinets, telephones and related components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727); treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

As at the date of this annual report summary and results announcement, Zhongxingxin's 2013 annual audit work has yet to be completed. Unaudited data are as follows: operating revenue, net profit and net cash flow from operating activities of Zhongxingxin for 2013 amounted to approximately RMB356 million, RMB18 million and RMB93 million, respectively. As at 31 December 2013, total assets and total liabilities amounted to approximately RMB6,525 million and RMB1,197 million, respectively. In future, Zhongxingxin will build an innovative investment group company engaged in diversified capital applications with a primary focus on innovative technologies and services in close tandem with principal economic activities in China.

During the year, Zhongxingxin did not hold any controlling or non-controlling stakes in other domestic or international listed companies.

### 4.3 The shareholders (or de facto controllers) of the Company's controlling shareholder

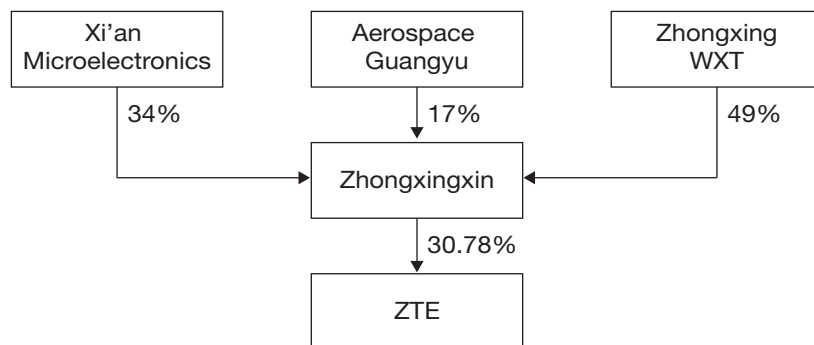
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi'an Microelectronics Technology Research Institute ("Xi'an Microelectronics"), Shenzhen Aerospace Guangyu Industrial Company Limited ("Aerospace Guangyu") and Shenzhen Zhongxing WXT Equipment Company Limited ("Zhongxing WXT"), each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Zhang Junchao and its organization number is H0420141-X. It is the only specialized research institute in China which integrates and complements the research, development and production of semiconductor integrated circuits, hybrid integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Xie Weiliang and the registered capital amounts to RMB17,950,000. Its organization number is 19217503-1. 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), raw materials for textile, raw materials for chemical fibre, apparel, textile; import and export operations (conducted in accordance with Shen Mao Jin [2000] No. 50 Qualifications Certificate); trade brokerage and agency, domestic trade (other than items for which approval is required prior to registration under the provisions of laws, administration regulations and State Council decisions); lease of owned properties.

Zhongxing WXT is a private enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. Its organization number is 27941498-X. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (specific projects shall be separately reported).

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2013:



#### 4.4 Purchase, sale or redemption of securities

The Company repurchased and cancelled 2,536,742 restricted shares not qualified for unlocking under the Phase I Share Incentive Scheme in 2013. For details, please refer to the section headed “Material Matters — (V) Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking” in the Annual Report. Save as aforesaid, the Company did not purchase, dispose of or redeem any securities of the Company in 2013.

## 5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 5.1 Changes in the shareholdings of the Company's Directors, Supervisors, senior management and annual remuneration

The effective shareholdings in the issued share capital of the Company held by the Directors, Supervisors and senior management of the Company and annual remuneration at the end of the year are as follows:

No	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period	Reason for the change	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from shareholder entities
<b>Directors of the Company</b>														
1	Hou Weigui	Chairman	Incumbent	Male	72	3/2013	3/2016	1,297,472	—	—	1,297,472	—	80.2	No
2	Zhang Jianheng	Vice Chairman	Incumbent	Male	52	3/2013	3/2016	—	—	—	—	—	10.0	No
3	Xie Weiliang	Vice Chairman	Incumbent	Male	57	3/2013	3/2016	32,760	—	—	32,760	—	10.0	Yes
4	Wang Zhanchen	Director	Incumbent	Male	61	3/2013	3/2016	—	—	—	—	—	10.0	No
5	Zhang Junchao	Director	Incumbent	Male	60	3/2013	3/2016	32,760	—	—	32,760	—	10.0	No
6	Dong Lianbo	Director	Incumbent	Male	56	3/2013	3/2016	32,760	—	—	32,760	—	10.0	Yes
7	Shi Lirong	Director and President	Incumbent	Male	49	3/2013	3/2016	410,511	—	—	410,511	—	67.3	No
8	Yin Yimin	Director	Incumbent	Male	50	3/2013	3/2016	632,833	—	—	632,833	—	77.9	No
9	He Shiyong	Director	Incumbent	Male	47	3/2013	3/2016	344,940	—	—	344,940	—	65.9	No
10	Qu Xiaohui	Independent Non-executive Director	Incumbent	Female	59	3/2013	7/2015	—	—	—	—	—	13.0	No
11	Wei Wei	Independent Non-executive Director	Incumbent	Male	48	3/2013	7/2015	—	—	—	—	—	13.0	No
12	Chen Naiwei	Independent Non-executive Director	Incumbent	Male	56	3/2013	7/2015	—	—	—	—	—	13.0	No
13	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	69	3/2013	3/2016	—	—	—	—	—	13.0	No
14	Timothy Alexander Steinert <sup>Note 1</sup>	Independent Non-executive Director	Resigned	Male	53	3/2013	6/2013	—	—	—	—	—	6.5	No
15	Richard Xike Zhang <sup>Note 1</sup>	Independent Non-executive Director	Incumbent	Male	43	6/2013	3/2016	—	—	—	—	—	6.5	No
<b>Supervisors of the Company</b>														
16	Zhang Taifeng	Chairman of Supervisory Committee	Resigned	Male	72	3/2010	3/2013	501,425	—	21,400	480,025	Note 6	44.6	No
17	Xie Daxiong <sup>Note 2</sup>	Chairman of Supervisory Committee	Incumbent	Male	50	3/2013	3/2016	498,492	—	85,323	413,169	Note 6	89.3	No
18	He Xuemei	Supervisor	Incumbent	Female	43	3/2013	3/2016	80,347	—	—	80,347	—	27.6	No
19	Zhou Huidong	Supervisor	Incumbent	Male	37	3/2013	3/2016	78,158	—	—	78,158	—	33.8	No
20	Wang Yan	Supervisor	Resigned	Female	48	3/2010	3/2013	—	—	—	—	—	—	Yes
21	Xu Weiyang	Supervisor	Incumbent	Female	51	3/2013	3/2016	9,199	—	—	9,199	—	46.2	No
22	Chang Qing <sup>Note 2</sup>	Supervisor	Incumbent	Male	58	3/2013	3/2016	—	—	—	—	—	—	Yes
<b>Senior Management of the Company</b>														
23	He Shiyong <sup>Note 3</sup>	Executive Vice President	Resigned						Note 3					
24	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	51	4/2013	3/2016	437,421	—	—	437,421	—	63.7	No
25	Xie Daxiong <sup>Note 4</sup>	Executive Vice President	Resigned						Note 4					
26	Tian Wenguo	Executive Vice President	Incumbent	Male	44	4/2013	3/2016	273,169	—	68,292	204,877	Note 6	63.7	No
27	Qiu Weizhao	Executive Vice President	Incumbent	Male	50	4/2013	3/2016	446,600	—	61,186	385,414	Note 6	61.9	No
28	Fan Qingfeng	Executive Vice President	Incumbent	Male	45	4/2013	3/2016	562,500	—	80,000	482,500	Note 6	64.1	No
29	Zeng Xuezhong <sup>Note 3</sup>	Senior Vice President	Resigned	Male	40	4/2013	1/2014	567,600	—	140,000	427,600	Note 6	76.9	No
30	Zhao Xianming <sup>Note 3</sup>	Senior Vice President	Resigned	Male	47	4/2013	1/2014	431,873	—	107,968	323,905	Note 6	448.1	No
31	Chen Jie	Senior Vice President	Incumbent	Female	55	4/2013	3/2016	794,583	—	50,000	744,583	Note 6	100.5	No
32	Pang Shengqing	Senior Vice President	Incumbent	Male	45	4/2013	3/2016	521,402	—	100,000	421,402	Note 6	152.8	No
33	Xu Huijun	Senior Vice President	Incumbent	Male	40	4/2013	3/2016	560,945	—	—	560,945	—	106.2	No
34	Ye Weimin	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	516,331	—	119,083	397,248	Note 6	56.2	No
35	Ni Qin <sup>Note 4</sup>	Senior Vice President	Resigned	Male	54	3/2010	1/2013	730,560	—	180,440	550,120	Note 6	40.9	No
36	Wu Zengqi <sup>Note 4</sup>	Senior Vice President	Resigned	Male	49	3/2010	1/2013	486,570	—	139,240	347,330	Note 6	71.8	No

No	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period	Reason for the change	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from shareholder entities
37	Zhu Jinyun	Senior Vice President	Incumbent	Male	41	4/2013	3/2016	482,460	—	—	482,460	—	54.0	No
38	Zhang Renjun	Senior Vice President	Incumbent	Male	44	4/2013	3/2016	—	—	—	—	—	54.0	No
39	Wang Jiaran <sup>Note 4</sup>	Senior Vice President	Resigned	Male	44	3/2012	1/2013	151,107	—	—	151,107	—	37.1	No
40	Chen Jianzhou	Senior Vice President	Incumbent	Male	43	4/2013	3/2016	130,028	—	—	130,028	—	54.0	No
41	Cheng Lixin <sup>Note 5</sup>	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	3,000	—	—	3,000	—	344.3	No
42	Feng Jianxiong	Secretary to the Board	Incumbent	Male	39	4/2013	3/2016	275,000	—	—	275,000	—	56.0	No
<b>Total</b>								<b>11,322,806</b>	<b>—</b>	<b>1,152,932</b>	<b>10,169,874</b>		<b>2,554.0</b>	<b>—</b>

*Note 1:* The term of office of Mr. Timothy Alexander Steinert as Independent Non-executive Director of the Company ended on 29 June 2013; at the Second Extraordinary General Meeting of 2013 of the Company held on 28 June 2013, Mr. Richard Xike Zhang was elected as Independent Non-executive Director of the Sixth Session of the Board of Directors of the Company for a term commencing on 30 June 2013 and ending upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016).

*Note 2:* At the First Extraordinary Meeting of 2013 of the Company held on 7 March 2013, Mr. Chang Qing was elected as Shareholders' Representative Supervisor of the Sixth Session of the Supervisory Committee of the Company; on 28 February 2013, Mr. Xie Daxiong was elected as Staff Representative Supervisor of the Sixth Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company.

*Note 3:* At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, the discontinuation by the Company of the employment of Mr. He Shiyong as Executive Vice President of the Company; the appointment of each of Mr. Zeng Xuezhong and Mr. Zhao Xianming as Executive Vice President of the Company and the removal of each of them from the office of Senior Vice President of the Company; and the appointment of each of Mr. Xiong Hui and Mr. Zhang Zhenhui as Senior Vice President of the Company were approved.

*Note 4:* At the Thirty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 14 January 2013, the discontinuation by the Company of the employment of Mr. Xie Daxiong as Executive Vice President of the Company and each of Mr. Ni Qin, Mr. Wu Zengqi and Mr. Wang Jiaran as Senior Vice President of the Company were approved.

*Note 5:* At the First Meeting of the Sixth Session of the Board of Directors of the Company held on 2 April 2013, the appointment by the Company of Mr. Cheng Lixin as Senior Vice President of the Company was approved.

*Note 6:* Reduction of shareholdings in accordance with "Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof".

*Note 7:* None of the Company's Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

*Note 8:* During the year, no Director of the Company waived any emolument.

For details of share options granted to Directors and senior management during the reporting period, please refer to the section headed "Material Matters — (VI) Implementation and impact of the Company's share option incentive scheme" in the Annual Report. During the reporting period, none of the Supervisors had been granted share options.

## **5.2 Interests of Directors, Supervisors and Chief Executive Officer in shares or debentures**

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2013 are set out in the section of this annual report summary and results announcement headed “5.1 Changes in the shareholdings of the Company’s Directors, Supervisors, senior management and annual remuneration”.

Save as disclosed above, as at 31 December 2013, none of the Directors, Supervisors and Chief Executive Officer of the Company 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 SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

As at 31 December 2013, none of the Directors, Supervisors or the Chief Executive Officer 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 Business Review for 2013**

#### ***1. Overview of the domestic telecommunications industry for 2013***

While there was a general slowdown in the domestic telecommunications industry in 2013, the issuance of 4G licenses and the announcement of the Broadband China strategy together with pertinent implementation plans injected vitality to support growth in equipment investment by the telecommunications industry. Capital expenditure of domestic carriers was focused on the large-scale deployment of 4G networks and the construction of relevant ancillary facilities, with wireless, broadband and transmission continuing to be heavily favoured by the industry. There was ongoing progress in the development of strategic new sectors such as the Internet of Things and Cloud Computing with the support of government policies. Meanwhile, the building of the Smart City, as an initiative for transformation in the process of urban development, has entered the stage of effective implementation. According to statistics published by the Ministry of Industry and Information Technology, revenue from the telecommunication services amounted to RMB1,168.91 billion for 2013, representing a year-on-year growth of 8.7%.

#### ***2. Overview of the global telecommunications industry for 2013***

Growth was sustained in equipment investment by the global telecommunications industry in 2013, albeit at a slow pace. As 2G networks were gradually being phased out, the market was dominated by 3G and 4G networks, with WLAN technologies providing an important complement under the irreversible trend of wireless and broadband access by users. The thriving popularity of the Mobile Internet assured continuous growth in consumers’ demand for smart terminals. In the meantime, global carriers in danger of being reduced to the role of a mere provider of network connection were actively investigating new profit models, such as service innovations and applications for the government and enterprise sectors. As national broadband schemes were being proposed in numerous countries across the globe, policy support and government funding should drive the construction of global broadband networks.

### 3. *Operating Results of the Group for 2013*

During 2013, while global carriers tended to adopt a more rational approach in equipment investment, domestic carriers did gradually increase their investment in equipment because of the issuance of 4G licenses. The Group optimised its market and product allocation in active support of the technological preferences and network construction plans of global carriers. Nevertheless, the Group's overall operating revenue decreased by 10.6% to RMB75.23 billion as compared to 2012, mainly as a result of the decline in operating revenue from terminal products. During the year, the Group strengthened its management over contract profitability and exercised stringent control over the execution of low gross margin contracts, resulting in improved gross margin for international projects and the increase in operating revenue from domestic systems projects as a percentage of total revenue. Total expenses (selling and distribution costs, administrative expenses and research and development costs) for the reporting period decreased significantly as compared to the same period last year, reflecting the Group's effort to enhance cost management and improve efficiency. As a result of the aforesaid measures, the Group achieved turnaround to profit for the year to report net profit attributable to shareholders of the listed company of RMB1.36 billion for 2013, representing a year-on-year growth of 147.8%. Basic earnings per share amounted to RMB0.39.

#### 1) *By market*

The domestic market

During the year under review, the Group reported operating revenue of RMB35.63 billion from the domestic market, accounting for 47.4% of the Group's overall operating revenue. The Group worked in close tandem with the network construction plans of carriers to capitalise on opportunities in the domestic market for equipment investment, with a special emphasis on areas with strong carriers' interest, such as flow operation and the Smart City. We were also vigorously involved in the development of strategic new sectors such as Cloud Computing and the Internet of Things.

The international market

During the year under review, the Group reported operating revenue of RMB39.60 billion from the international market, accounting for 52.6% of the Group's overall operating revenue. The Group continued to focus on in-depth business development and operation in major populous nations and with mainstream global carriers, with an ongoing focus on markets and products to gradually optimise our allocations in key markets. Comprehensive partnerships with mainstream global carriers have been formed as a result.

#### 2) *By product*

During the year under review, the Group reported operating revenue of RMB40.70 billion for carriers' networks. Operating revenue for terminals amounted to RMB21.70 billion. Operating revenue for telecommunication software systems, services and other products amounted to RMB12.83 billion.



## Carriers' networks

In connection with wireless products, the Group started to reap rewards from its ongoing investments in the research and development of 4G products with the successful commercial application of its Cloud Radio solution, especially in the domestic market where the Group edged its peers in market shares for 4G product tenders, while revenue was also being reported in the international market where the Group's business was starting to embrace positive developments. In the traditional 2G/3G markets, we continued to identify further opportunities in network expansion or upgrade. And while the Group was implementing its strategic business deployment for 4G and seeking further business opportunities in the existing 2G/3G markets, it was also actively engaged in the research, development and planning of 5G.

In connection with wireline and optical communications products, the Group reported relatively fast growth in operating revenue from wireline switch and access products on the back of ongoing investment in research and development and outstanding product competitiveness, while such growth was also being driven by the rapid development of the broadband market and the construction of supporting facilities for the Mobile Internet.

In terms of the service products, new breakthroughs in mainstream global carriers were made with the sales of IPTV and video conference products, resulting in enhanced market share for the Group in the interest of sustainable development.

## Terminals

In 2013, operating revenue from terminal products decreased in line with the decline in operating revenue from feature phones and data cards and the decline in operating revenue from 3G handsets in the domestic market, while operating revenue from smart terminals as a percentage of total revenue continued to rise, as driven by the rapid development of the Mobile Internet. The Group will be committed to enhancing the competitiveness of its terminal products, repackaging them as consumer goods with a more Internet-driven mentality. While maintaining and enhancing our competitive edge in hardware, we also intend to highlight our software and services, so that we could win over consumers through innovation on the back of our core competitive strengths.

## Telecommunications software systems, services and other products

During the year under review, operating revenue from the Group's telecommunications software systems, services and other products reported year-on-year decline of 6.3%, which reflected mainly the decline in operating revenue from video and network terminal products in both domestic and international markets.

## 6.2 Discussion and analysis in accordance with PRC ASBEs

The financial data below are extracted from the Group's audited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young Hua Ming LLP and the accompanying notes thereto set out in the Annual Report.

### 6.2.1 Breakdown of indicators by industry, product and region segments for the year as compared to the previous year

Unit: RMB in millions

Revenue mix	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue <sup>Note</sup>	Year-on-year increase/decrease in operating costs <sup>Note</sup>	Year-on-year increase/decrease in gross profit margin (percentage points)
<b>I. By industry</b>						
Manufacturing of communication equipment	75,233.7	53,125.9	29.39%	(10.56%)	(17.11%)	5.58
<b>Total</b>	<b>75,233.7</b>	<b>53,125.9</b>	<b>29.39%</b>	<b>(10.56%)</b>	<b>(17.11%)</b>	<b>5.58</b>
<b>II. By product</b>						
Carriers' networks	40,695.7	25,491.8	37.36%	(2.18%)	(14.10%)	8.69
Terminals	21,702.1	18,487.0	14.81%	(24.69%)	(23.70%)	(1.11)
Telecommunication software systems, services and other products	12,835.9	9,147.1	28.74%	(6.29%)	(10.18%)	3.09
<b>Total</b>	<b>75,233.7</b>	<b>53,125.9</b>	<b>29.39%</b>	<b>(10.56%)</b>	<b>(17.11%)</b>	<b>5.58</b>
<b>III. By region</b>						
The PRC	35,636.0	23,770.6	33.30%	(9.68%)	(18.18%)	6.93
Asia (excluding the PRC)	13,849.5	10,444.4	24.59%	(13.78%)	(18.18%)	4.06
Africa	5,866.0	4,353.6	25.78%	(24.99%)	(20.97%)	(3.78)
Europe, Americas and Oceania	19,882.2	14,557.3	26.78%	(4.32%)	(13.17%)	7.46
<b>Total</b>	<b>75,233.7</b>	<b>53,125.9</b>	<b>29.39%</b>	<b>(10.56%)</b>	<b>(17.11%)</b>	<b>5.58</b>

*Note:* The figures for operating revenue and operating costs for the previous year in the above table have been extracted from the restated statements for the previous year.

### 1. Analysis of change in income

The Group reported RMB75,233.7 million in operating revenue for 2013, dropping 10.56% as compared with last year. Operating revenue generated from the domestic business amounted to RMB35,636.0 million, dropping 9.68% as compared with last year. Operating revenue generated from the international business also declined 11.34%, as compared with last year, to RMB39,597.7 million.

Analysed by product segment, year-on-year decline was generally reported for carriers' networks, terminals, telecommunication software systems, services and other products. The slight decrease in revenue from the Group's carriers' networks for 2013 reflected mainly the combined effect of the increase in revenue from 4G products in the domestic market and wireline products in the international market on the one hand, and the decrease in revenue generated from GSM/UMTS systems equipment products in the domestic and international markets and CDMA systems equipment products in the international market. The decrease in revenue from the Group's terminals for 2013 reflected mainly the general decrease in revenue generated from 3G, CDMA and GSM handsets in the domestic market and GSM handsets and data cards in the international market. The decrease in revenue from the Group's telecommunication software systems, services and other products for 2013 mainly reflected the decline in revenue from video and network terminals products in both the domestic and the international markets.

### 2. Explanatory statement relating to the adjustment of product classification

"ZTEMT" product mainly comprises mobile phone and related accessories. The said product was included in "Telecommunication software systems, services and other products" in 2012 and prior years as mobile phone revenue only accounted for a small proportion of the said product's revenue and mobile phone was not classified as a separate item. However, the proportion of mobile phone revenue in the said product started to increase in 2013, therefore the Company reclassified the said product to "Terminals" and restated the data breakdown by product for the same period of 2012, accordingly.

### 3. Changes in the scope of consolidation as a result of changes in equity interests in the Company's subsidiaries and analysis of operating revenue and operating costs for the comparable period last year

Unit: RMB millions

2013			2012 <sup>Note</sup>			Year on year increased/ decrease in operating revenue	Year on year increase/ decrease in operating costs	Year on year increase/ decrease in gross profit margin (percentage points)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
75,233.7	53,125.9	29.39%	82,403.0	62,742.4	23.86%	(8.70%)	(15.33%)	5.53

Note: Figures of operating revenue and operating cost for 2012 have excluded operating revenue and operating costs of subsidiaries previously consolidated but disposed of in 2012.

In 2012, the Company completed the disposal of its 81% equity interests in Shenzhen Changfei Investment Company Limited and 68% equity interests in Shenzhen ZTE Special Equipment Company Limited, while in January 2013 the Company and ZTE (H.K.) Limited completed the disposal of their aggregate 81% equity interests in Shenzhen ZNV Technology Co., Ltd. The said companies were not included in the consolidated statements of the Company for 2013. The operating revenue and operating costs of the said companies which have been included in the consolidated statements for 2012 amounted to RMB1,715.9 million and RMB1,349.1 million, respectively. Excluding the 2012 operating revenue and operating costs of the said companies, the operating revenue and operating costs of the Group of 2013 decreased by 8.70% and 15.33%, respectively, compared to the same period last year, while gross profit margin increased by 5.53 percentage points, compared to the same period last year.

***6.2.2 Reasons for substantial changes in the Group's principal business and its structure, profit mix and profitability during the year***

1. There was no substantial change in the principal business and its structure during the year as compared to the previous year.
2. Changes in the profit mix during the year as compared to the previous year are set out as follows:

For 2013, the Group reported operating profit of RMB-1,493.1 million, an increase by 70.15% compared to the previous year, which was mainly attributable to the substantial improvement in gross profit margin and the year-on-year decrease in expenses for the period. Expenses for the period amounted to RMB22,050.3 million, 10.08% lower as compared to the previous year reflecting mainly the decrease in human resource expenses and travelling expenses. Investment gains amounted to RMB914.4 million, decreasing by 27.36% as compared to the previous year and reflecting mainly the year-on-year decrease in investment gains from the disposal of equity interests. Net non-operating income and expenses amounted to RMB3,320.9 million, a year-on-year increase of 10.00% reflecting year-on-year growth in income from software VAT rebate.

3. The Group's overall gross profit margin increased substantially by 5.58 percentage points compared to 2012, as the Group strengthened management over contract profitability and strictly controlled the execution of low gross margin contracts during the year.

### 6.3 Discussion and analysis in accordance with HKFRSs

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

*Unit: RMB in millions*

<b>Profit or loss and other comprehensive income statement</b>	<b>2013</b>	2012 (Restated)
Operating revenue:		
Carriers' networks	40,695.7	41,602.6
Terminals	21,702.1	28,818.6
Telecommunication software systems, services and other products	12,835.9	13,697.7
	<hr/>	<hr/>
Total revenue	75,233.7	84,118.9
Cost of sales	(54,775.1)	(65,545.5)
	<hr/>	<hr/>
Gross profit	20,458.6	18,573.4
Other income and gains	4,905.3	4,609.2
Research and development costs	(7,383.9)	(8,829.2)
Selling and distribution expenses	(10,158.5)	(11,340.9)
Administrative expenses	(2,258.7)	(2,449.2)
Other expenses	(2,119.1)	(706.1)
	<hr/>	<hr/>
Profit from operating activities	3,443.7	(142.8)
Finance costs	(1,650.4)	(1,888.5)
Share of profit and loss of joint ventures and associates	34.5	48.1
	<hr/>	<hr/>
<b>Profit before tax</b>	<b>1,827.8</b>	(1,983.2)
Income tax expense	(394.2)	(621.4)
	<hr/>	<hr/>
<b>Net profit</b>	<b>1,433.6</b>	(2,604.6)
Attributable to:		
Non-controlling interests	(76.0)	(236.3)
	<hr/>	<hr/>
Attributable to:		
Shareholders of parent company	1,357.6	(2,840.9)
	<hr/>	<hr/>
<b>Other comprehensive income</b>	<b>(279.3)</b>	766.8
<b>Comprehensive income</b>	<b>1,154.3</b>	(1,837.8)
<b>Dividend</b>	<b>103.1</b>	—
	<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share — Basic</b>	<b>RMB0.39</b>	RMB(0.83)
	<hr/> <hr/>	<hr/> <hr/>
— Diluted	<b>RMB0.39</b>	RMB(0.83)
	<hr/> <hr/>	<hr/> <hr/>

## Revenue Analysis by Product and Geographic Region

The following table sets out the revenue attributable to the major product segments of the Group for the periods indicated, in monetary amount and as a percentage of the total operating revenue:

*Unit: RMB in millions*

Product segment	2013		2012 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	40,695.7	54.1%	41,602.6	49.5%
Terminals	21,702.1	28.8%	28,818.6	34.2%
Telecommunication software systems, services and other products	12,835.9	17.1%	13,697.7	16.3%
<b>Total</b>	<b>75,233.7</b>	<b>100.0%</b>	<b>84,118.9</b>	<b>100.0%</b>

The following table sets out the revenue of the Group attributable to the PRC, Asia (excluding the PRC), Africa, Europe, the Americas and Oceania for the periods indicated, in monetary amount and as a percentage of the total operating revenue:

*Unit: RMB in millions*

Region	2013		2012 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	35,636.0	47.4%	39,455.6	46.9%
Asia (excluding the PRC)	13,849.5	18.4%	16,062.7	19.1%
Africa	5,866.0	7.8%	7,820.6	9.3%
Europe, the Americas and Oceania	19,882.2	26.4%	20,780.0	24.7%
<b>Total</b>	<b>75,233.7</b>	<b>100.0%</b>	<b>84,118.9</b>	<b>100.0%</b>

The Group reported RMB75,233.7 million in operating revenue for 2013, dropping 10.6% as compared with last year. Operating revenue generated from the domestic business amounted to RMB35,636.0 million, dropping 9.7% as compared with last year. Operating revenue generated from the international business also declined 11.3%, as compared with last year, to RMB39,597.7 million.

Analysed by product segment, year-on-year decline was generally reported for carriers' networks, terminals, telecommunication software systems, services and other products. The slight decrease in revenue from the Group's carriers' networks for 2013 reflected mainly the combined effect of the increase in revenue from 4G products in the domestic market and wireline products in the international market on the one hand, and the decrease in revenue generated from GSM/UMTS systems equipment products in the domestic and international markets and CDMA systems equipment products in the international market. The decrease in revenue from the Group's

terminals for 2013 reflected mainly the general decrease in revenue generated from 3G, CDMA and GSM handsets in the domestic market and GSM handsets and data cards in the international market. The decrease in revenue from the Group's telecommunication software systems, services and other products for 2013 mainly reflected the decline in revenue from video and network terminals products in both the domestic and the international markets.

#### *Cost of Sales and Gross Profit*

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

*Unit: RMB in millions*

Product segment	2013		2012 (Restated)	
	Cost of sales	As a percentage of product segment revenue	Cost of sales	As a percentage of product segment revenue
Carriers' networks	26,612.8	65.4%	30,564.8	73.5%
Terminals	18,523.1	85.4%	24,287.4	84.3%
Telecommunication software systems, services and other products	9,639.2	75.1%	10,693.3	78.1%
<b>Total</b>	<b>54,775.1</b>	<b>72.8%</b>	<b>65,545.5</b>	<b>77.9%</b>

*Unit: RMB in millions*

Product segment	2013		2012 (Restated)	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	14,082.9	34.6%	11,037.8	26.5%
Terminals	3,179.0	14.6%	4,531.2	15.7%
Telecommunication software systems, services and other products	3,196.7	24.9%	3,004.4	21.9%
<b>Total</b>	<b>20,458.6</b>	<b>27.2%</b>	<b>18,573.4</b>	<b>22.1%</b>

Cost of sales of the Group for 2013 decreased 16.4% as compared to last year to RMB54,775.1 million. The Group's overall gross profit margin of 27.2% was 5.1 percentage points higher as compared to last year, reflecting mainly higher gross profit margin for carriers' networks and telecommunication software systems, services and other products, which accounted for a significant share Group revenue.

Cost of sales of the Group's carriers' networks for 2013 amounted to RMB26,612.8 million, a 12.9% decrease compared to last year. The relevant gross profit margin was 34.6% versus 26.5% for last year. The increase in gross profit margin of carriers' networks mainly reflected the improvement in gross profit margin for 3G and 4G products in the domestic market and 3G products in the international market, which accounted for a significant share in segment revenue.

Cost of sales of the Group's terminals for 2013 amounted to RMB18,523.1 million, a decline of 23.7% compared to last year. The relevant gross profit margin was 14.6% versus 15.7% for last year. The slight decline in gross profit margin for terminals reflected mainly the combined effect of the increase in the gross profit margin for 2G and 3G handsets in the international market and the decline in the gross profit margin for 3G handsets in the domestic market.

Cost of sales of the Group's telecommunication software systems, services and other products for 2013 amounted to RMB9,639.2 million, decreasing by 9.9% compared to last year. The relevant gross profit margin was 24.9%, compared to 21.9% for last year. The increase in gross profit margin for telecommunication software systems, services and other products was mainly attributable to improved gross profit margin for video and network terminals products in the domestic market, which accounted for a significant share in segment revenue.

#### *Other Income and Gains*

Other income and gains of the Group for 2013 amounted to RMB4,905.3 million, representing a 6.4% growth compared to RMB4,609.2 million for 2012. The increase reflected mainly to the increase of rebates of software product VAT and other tax subsidies.

#### *Research and Development Costs*

The Group's research and development costs for 2013 decreased by 16.4% to RMB7,383.9 million from RMB8,829.2 million for 2012, and decreased by 0.7 percentage points from 10.5% for 2012 to 9.8% for 2013 as a percentage of operating revenue, attributable mainly to the Group's enhanced control over research and development costs during the period.

#### *Selling and Distribution Expenses*

The Group's selling and distribution expenses for 2013 decreased by 10.4% to RMB10,158.5 million from RMB11,340.9 million for 2012, reflecting mainly lower expenses in human resources and travel expenses for the period. Selling and distribution expenses as a percentage of operating revenue remained at 13.5% for 2013, same as that reported for 2012.

#### *Administrative Expenses*

Administrative expenses of the Group for 2013 decreased by 7.8% to RMB2,258.7 million, as compared to RMB2,449.2 million for 2012, mainly attributable to the Group's enhanced control over administrative expenses during the period. Administrative expenses as a percentage of operating revenue increased slightly from 2.9% for 2012 to 3.0% for 2013.

#### *Other Expenses*

Other expenses of the Group for 2013 increased by 200.1% to RMB2,119.1 million, as compared to RMB706.1 million for 2012, reflecting mainly the increase in losses arising from exchange rate volatility and the increase in bad debt provisions for the period.



### *Profit From Operating Activities*

The Group's profit from operating activities for 2013 increased to RMB3,443.7 million, as compared to RMB142.8 million for 2012, while the operating profit margin increased from -0.2% for 2012 to 4.6% for 2013, primarily as a result of higher overall gross profit margin and gross profit of the Group and the decrease in total expenses for the period.

### *Finance Costs*

Finance costs of the Group for 2013 decreased by 12.6% to RMB1,650.4 million compared to RMB1,888.5 million for 2012, reflecting mainly the decrease in interest for discounted bills and the decrease in factored interest payments for the period.

### *Income tax expense*

The Group's income tax expense for 2013 was RMB394.2 million, which was 36.6% lower as compared to RMB621.4 million for 2012, reflecting mainly lower concessionary tax rates applicable to certain subsidiaries reporting significant growth in taxable profit and the entitlement of certain subsidiaries to concessionary tax rates applicable to software enterprises with effect from 2013 for the period.

### *Profit Attributable To Non-controlling Interests*

The Group's profit attributable to non-controlling interests for 2013 amounted to RMB76.0 million, representing a decrease of 67.8% compared to RMB236.3 million for 2012, mainly attributable to the deconsolidation for the current year of certain subsidiaries with a higher proportion of non-controlling interests which were included in the consolidated financial statements last year, after the disposal of their equity interests late last year.

### *Other Comprehensive Income*

Other comprehensive income of the Group for 2013 decreased by 136.4% to RMB-279.3 million, compared to RMB766.8 million for 2012, mainly owing to the increase in other comprehensive income for the same period last year as a result of the appreciation of certain properties following revaluation upon reclassification from properties for self-occupation to investment properties and the absence of such matter for the current period.

### *Capital Management Policy*

The Group has adopted an appropriate capital management policy, whereby its working capital is mainly financed through its internal resources and bank loans. The Group confirms that sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

### *Debt-Equity Ratio and the Basis of Calculation*

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

The Group's debt-equity ratio for 2013 was 57.9%, decreasing by 4.6 percentage points as compared to 62.5% for 2012. The decrease was mainly attributable to the redemption during the first half of 2013 of RMB4,000.0 million Bonds cum Warrant issued in 2008, resulting in the decrease in interest-bearing liabilities for the period.

## *Liquidity and Capital Resources*

In 2013, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements.

Cash and cash equivalents of the Group as of 31 December 2013 amounted to RMB20,118.3 million.

### *Cash Flow Data*

	<i>Unit: RMB in millions</i>	
	<b>2013</b>	2012
Net cash inflow from operating activities	<b>446.9</b>	1,873.1
Net cash outflow from investing activities	<b>(1,171.0)</b>	(4,376.8)
Net cash inflow (outflow) from financing activities	<b>(1,045.1)</b>	4,536.6
Net increase (decrease) in cash and cash equivalents	<b>(1,769.2)</b>	2,032.9
Cash and cash equivalents at year-end	<b>20,118.3</b>	22,659.6

### *Operating Activities*

The Group reported net cash inflow from operating activities of RMB446.9 million for 2013, compared to net cash inflow of RMB1,873.1 million for 2012, mainly reflecting year-on-year decrease of cash received from sales of goods and provision of services by RMB6,025.6 million, decrease in cash payments to and on behalf of employees by RMB1,416.2 million, decrease in other cash payments relating to operating activities by RMB1,513.6 million, and decrease in cash payments relating to dividend distribution or interest repayment by RMB855.8 million.

### *Investing Activities*

The Group's net cash outflow from investing activities was RMB1,171.0 million for 2013 and RMB4,376.8 million for 2012, reflecting mainly the increase in pledged bank deposits in the previous year by RMB2,864.3 million and the release of pledged bank deposits amounting to RMB442.2 million in the current period.

### *Financing Activities*

The Group's net cash outflow from financing activities for 2013 was RMB1,045.1 million, compared to net cash inflow of RMB4,536.6 million for 2012, reflecting mainly a decrease in cash received from borrowings by RMB22,181.8 million and a decrease in cash paid for debt settlement by RMB16,547.6 million.

### *Capital Expenditure*

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

*Unit: RMB in millions*

<b>Capital expenditure</b>	<b>2013</b>	<b>2012</b>
Purchases of fixed assets and increase of construction in progress payments	<b>904.1</b>	1,257.6

The Group's capital expenditure for 2013 amounting to RMB904.1 million was mainly used for the completion of construction work at Xi'an Research and Development Centre, Nanjing R&D Centre, equipment installation projects and purchases of machinery and equipment, etc.

### *Indebtedness*

*Unit: RMB in millions*

<b>Item</b>	<b>31 December</b>	
	<b>2013</b>	<b>2012</b>
Secured bank loans	<b>890.3</b>	1,805.0
Unsecured bank loans	<b>19,838.3</b>	17,614.9

*Unit: RMB in millions*

<b>Item</b>	<b>31 December</b>	
	<b>2013</b>	<b>2012</b>
Short-term bank loans	<b>15,343.0</b>	18,429.9
Long-term bank loans	<b>5,385.6</b>	990.0

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

The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB. The Group seeks to mitigate the impact of exchange rate volatility on its operations by managing its foreign exchange risks through the use of measures such as the business planning, consolidated hedging and financial instruments based on the principle of exposure management.

The Group's bank loans in 2013 increased by RMB1,308.7 million over previous year and were mainly applied to provide additional working capital. The change in the structure of the long- and short-term debts was mainly attributable to the transfer of the Company's syndicate loans to short-term bank loans owing to non-compliance with a required financial benchmark as at the end of 2012 and the subsequent reclassification as long-term bank loans during the reporting period after an exemption letter had been obtained.

#### *Contractual Obligations*

*Unit: RMB in millions*

Item	Total	31 December 2013		
		Less than 1 year	2–5 years	More than 5 years
Bank loans	20,728.6	15,343.0	5,385.6	—
Operating lease obligation	1,087.0	389.6	639.7	57.7

#### *Contingent Liabilities*

*Unit: RMB in millions*

Item	31 December	
	2013	2012
Guarantees given to banks in connection with borrowings to customers	46.3	65.2
Guarantees given to banks in respect of performance bonds	7,022.3	7,814.8
Total	<u>7,068.6</u>	<u>7,880.0</u>

#### *Capital Commitments*

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

*Unit: RMB in millions*

Item	31 December	
	2013	2012
Land and buildings:		
Contracted, but not provided for	264.3	484.4
Investment in associates:		
Contracted, but not provided for	17.3	41.7
Land and buildings:		
Authorised, but not contracted	21,566.5	21,600.4

#### *Details of the Subsidiaries, Joint Ventures and Associates of the Group*

Details of the subsidiaries, joint ventures and associates of the Group as at 31 December 2013 are set out in Notes 20, 21 and 22 to the financial statements prepared in accordance with HKFRSs in the Annual Report.

### *Material Acquisitions and Disposals Related to Subsidiaries And Associates*

Details of material acquisitions and disposals related to subsidiaries of the Group in 2013 are set out in the section headed “Material Matters — (IV) Asset Transactions” in the Annual Report.

### *Prospects for New Business*

Details of the prospects for new business of the Group are set out in the section headed “Chairman’s Statement — Future Prospects” in the Annual Report.

### *Employees*

Details of the number of employees, training programmes, remuneration, remuneration policy, bonus and the share option scheme of the Group as at 31 December 2013 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees,” “Corporate Governance Structure” and “Material Matters” in the Annual Report.

### *Charges On Assets*

Details of the Group’s charges on assets as at 31 December 2013 are set out in Note 34 to the financial statements prepared under HKFRSs in the Annual Report.

### *Plans for Material Investments or Acquisition of Capital Assets*

Details of the Group’s material investments and their performance and prospects as at 31 December 2013 are set out in the section headed “Material Matters — (IV) Asset Transactions” in the Annual Report.

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

### *Market Risks*

For details of the Group’s exposure to market risks, please refer to the section 6.5.2 in this annual report summary and results announcement.

## **6.4 Proposal for profit distribution of 2013**

Audited net profit of the Company for the year 2013 calculated in accordance with PRC ASBEs amounted to approximately RMB375,923,000. Together with undistributed profit of approximately RMB-118,276,000 carried forward at the beginning of the year and after deducting statutory surplus reserves of approximately RMB25,765,000, the profit available for distribution to shareholders amounted to approximately RMB231,882,000. Audited net profit of the Company for the year 2013 calculated in accordance with HKFRSs amounted to approximately RMB340,024,000. Together with undistributed profit of approximately RMB-178,203,000 carried forward at the beginning of the year and after deducting statutory surplus reserves of approximately RMB25,765,000, the profit available for distribution to shareholders amounted to approximately RMB136,056,000.

In accordance with the requirements of the Ministry of Finance of the People’s Republic of China and the Articles of Association of ZTE Corporation, the profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC

ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB136,056,000. The Board of Directors of the Company has recommended as follows:

The profit distribution proposal for 2013: Cash dividend of RMB0.3 (before tax) for every 10 shares held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2013. The proposal shall require consideration and approval at the 2013 Annual General Meeting and the related circular will be dispatched to shareholders on 9 April 2014.

In accordance with the Law on Individual Income Tax of the People's Republic of China and its regulations for implementation, dividends/bonuses obtained by overseas resident individual shareholders from shares issued in Hong Kong by Mainland non-foreign-invested enterprises shall be subject, under the category of "interests, dividend, and bonus income," to individual income tax to be withheld and paid on behalf of such shareholders by the withholding agent in accordance with the law. The Company shall withhold and pay on behalf of such shareholders such tax amounts in accordance with "Notice on the Charge and Management of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 045" (Guo Shui Han [2011] No. 348) 《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號》 issued by the State Administration of Taxation, "Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies" issued by The Hong Kong Stock Exchange and pertinent laws and regulations. Shareholders should consult their tax advisors on implications relating to PRC, Hong Kong and other taxes involved in the ownership and disposal of H shares of the Company.

## **6.5 Business outlook for 2014 and risk exposures**

### **6.5.1. Business outlook for 2014**

Looking ahead to 2014, opportunities as well as challenges will abound in the telecommunications industry amid the full-fledged application of 4G technologies, the amalgamation of ICT industries and an overriding trend of informatisation. In connection with carriers' networks, the full-scale roll-out of 4G network deployment over the world, especially the large-scale construction of 4G networks in China, is set to usher in surging new developments for the telecommunications industry, although the coexistence of 3G/4G/WLAN is expected to remain in the scene in the longer term. National broadband schemes, users' demand and technology upgrades will drive the construction of global broadband networks, while the building of transmission networks that support wireless or wireline broadband will also continue. Regarding smart terminals, products of the next generation will feature higher levels of intelligence affording greater flexibility. Wearable device will present a new direction of development, as the fulfillment of consumers' needs becomes a crucial determining factor. In the government and enterprise service sectors, areas of keen market interest, such as industry informatisation, the Internet of Things, Cloud Computing, the Smart City and information security, etc, are set to present business opportunities to the Group.

To address the increasingly volatile telecommunications industry, the Group will endeavour to integrate its resources in a scientific manner in 2014, based on the core principle of "Innovation and Intensification." In particular, the combination of technological integrations with business model innovations will be sought to realise breakthroughs in its profit model, while achieving cost savings and optimisation in efficiency through innovation.

## 6.5.2. Risk Exposures

### 1. Country risk

Given the complex nature of international economic and political conditions, the Group will continue to be exposed to trade protection, debtors' risks, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. As such, a very high level of operational and risk control capabilities is required. Currently, the Group conducts systematic management of country risks mainly through regular assessment, timely warning and proactive response.

### 2. Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the management of intellectual property rights. We maintain our investment in technology research and development each year at approximately 10% of our sales revenue. While the Group has adopted stringent measures to protect its intellectual property rights, potential conflicts in intellectual property rights between the Group and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group cannot be ruled out. The Group will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

### 3. Exchange rate risk

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB. The Group seeks to mitigate the impact of exchange rate volatility on its operations by managing its foreign exchange risks through the use of measures such as the business planning, consolidated hedging and financial instruments based on the principle of exposure management.

### 4. Interest rate risk

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of national or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly by managing the structure of its interest-bearing liabilities.

### 5. Credit risk

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group has stepped up with the building of its international customer credit rating, credit risk assessment for projects, management of credit granting, credit control against customers with faulty payment records and the purchase of credit insurance, etc to mitigate the aforesaid impact.

## **7. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS**

### **7.1 Compliance of the Corporate Governance Code**

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January to 31 December 2013.

### **7.2 Securities transactions by Directors and Supervisors**

The Directors and Supervisors of the Company confirmed that the Company had adopted the Model Code. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

## **8. FINANCIAL REPORTS**

**8.1** 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 2013 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2013 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2013 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2013 prepared in accordance with HKFRSs.

### **8.2 Audit opinion**

The consolidated and company balance sheets as at 31 December 2013, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2013 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming LLP, who has issued a standard auditors' report with unqualified opinion (Ernst & Young Hua Ming (2014) SHENZI NO. 60438556\_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2013 prepared by the Group in accordance with HKFRSs.



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

**8.3.1 Financial statements prepared in accordance with PRC ASBEs (Please see Appendix I)**

**8.3.2 Financial statements prepared in accordance with HKFRSs and notes thereto (Please see Appendix II)**

### **8.4 Explanatory statement on changes in accounting policies, accounting estimates and auditing methods in comparison with the last annual financial report**

Applicable  N/A

The related explanatory statement is set out in the section 3 in this annual report summary and results announcement.

### **8.5 Explanatory statement on rectification of significant accounting errors for the year requiring retrospective restatement.**

Applicable  N/A

### **8.6 Explanation of changes to the scope of consolidated financial statement in comparison with the last annual financial report.**

During 2013, the Group established the following new subsidiaries: tier-one subsidiaries including 深圳市中興雲服務有限公司, 深圳市中興系統集成技術有限公司, ZTE Intelligent IOT Technology Co., Ltd, 福建海絲路科技有限公司 and 深圳匯方科技有限公司; tier-two subsidiaries including 深圳市中興移動軟件有限公司, ZTE Myanmar Company Limited, 黃岡教育穀投資控股有限公司, Shenzhen ZTE SeeCom Tech. Co., Ltd, 深圳市興聯達科技有限公司, 深圳市訊聯智付網絡有限公司, ZTE (TX) Inc., ZTE EGYPT FOR COMMUNICATION, 南京中興集群軟件有限公司; and tier-three subsidiaries including PT ZTE JOYGOR INDONESIA, ZTE (MLVV) LIMITED and 衡陽網信置業有限公司.

The Company and ZTE (H.K.) Limited (a wholly-owned subsidiary of the Company) respectively entered into the "Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company" and "Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company" with Ocean Delight Investments Limited to dispose of 81% equity interests in Shenzhen ZNV Technology Co., Ltd. held in aggregate by the Company and ZTE (H.K.) Limited. The date of equity interest disposal was 16 January 2013 and Shenzhen ZNV Technology Co., Ltd. was deconsolidated from the Group as from January 2013.

The Company entered into the "Equity Transfer Agreement for the Transfer of Equity Interests in Wuxi Zhongxing Optoelectronics Technologies Company Limited" with Guangdong Branch Baiyun Venture Capital Co., Ltd to dispose of 65% equity interests in Wuxi Zhongxing Optoelectronics Technologies Company Limited. The date of equity interest disposal was 28 October 2013 and Wuxi Zhongxing Optoelectronics Technologies Company Limited was deconsolidated from the Group as from October 2013.

**8.7 Explanatory statement by the Board of Directors and the Supervisory Committee on the accountant’s “qualified opinion” for the year**

Applicable  N/A

By Order of the Board  
**Hou Weigui**  
*Chairman*

Shenzhen, the PRC  
26 March 2014

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

**APPENDIX 1: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ASBES**

**CONSOLIDATED BALANCE SHEET**

(Prepared in accordance with PRC ASBES)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

At 31 December 2013

<b>Assets</b>	<b>2013</b>	2012 (Restated)
<b>Current assets</b>		
Cash	<b>20,903,035</b>	24,126,423
Financial assets dealt with at fair value through current profit and loss	<b>217,454</b>	106,297
Bills receivable	<b>3,500,671</b>	4,282,220
Trade receivables	<b>21,393,257</b>	22,068,176
Factored trade receivables	<b>3,338,801</b>	4,165,514
Other receivables	<b>1,729,163</b>	2,019,341
Prepayments	<b>751,405</b>	742,551
Inventories	<b>12,434,352</b>	11,442,389
Amount due from customers for contract works	<b>12,137,144</b>	13,666,100
<b>Total current assets</b>	<b>76,405,282</b>	82,619,011
<b>Non-current assets</b>		
Available-for-sale financial assets	<b>1,630,271</b>	1,092,335
Long-term trade receivables	<b>366,762</b>	1,206,642
Factored long-term trade receivables	<b>2,311,525</b>	4,018,484
Long-term equity investments	<b>478,037</b>	455,768
Investment properties	<b>1,855,246</b>	1,686,158
Fixed assets	<b>7,449,476</b>	7,096,624
Construction in progress	<b>177,423</b>	824,387
Intangible assets	<b>1,236,755</b>	1,087,038
Deferred development costs	<b>2,932,148</b>	2,446,934
Deferred tax assets	<b>1,353,033</b>	1,218,605
Long-term deferred assets	<b>70,942</b>	90,017
Other non-current assets	<b>3,812,597</b>	3,604,303
<b>Total non-current assets</b>	<b>23,674,215</b>	24,827,295
<b>Total assets</b>	<b>100,079,497</b>	107,446,306

**CONSOLIDATED BALANCE SHEET (CONTINUED)**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

At 31 December 2013

<b>Liabilities and shareholders' equity</b>	<b>2013</b>	<b>2012</b> (Restated)
<b>Current liabilities</b>		
Short-term loans	12,589,032	17,923,607
Bank advances on factored trade receivables	3,377,374	4,168,932
Financial liabilities dealt with at fair value through current profit and loss	67,779	105,739
Bills payable	8,498,021	11,478,102
Trade payables	16,492,534	18,115,877
Amount due to customers for contract works	3,682,564	3,459,545
Advances from customers	2,776,366	3,106,638
Salary and welfare payables	2,462,006	2,346,526
Taxes payable	(1,251,859)	(1,161,974)
Dividends payable	34,963	205,783
Other payables	8,478,144	8,127,193
Deferred income	408,845	267,082
Provisions	601,111	291,457
Long-term loans due within one year	2,753,925	4,524,420
<b>Total current liabilities</b>	<b>60,970,805</b>	<b>72,958,927</b>
<b>Non-current liabilities</b>		
Long-term loans	5,385,673	989,990
Bank advances on factored long-term trade receivables	2,311,525	4,018,484
Bonds payable	6,119,590	6,107,993
Long-term employees' remuneration payable	95,806	99,932
Deferred tax liabilities	139,900	139,900
Other non-current liabilities	1,430,509	538,241
<b>Total non-current liabilities</b>	<b>15,483,003</b>	<b>11,894,540</b>
<b>Total liabilities</b>	<b>76,453,808</b>	<b>84,853,467</b>

**CONSOLIDATED BALANCE SHEET (CONTINUED)**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

*At 31 December 2013*

<b>Liabilities and shareholders' equity</b>	<b>2013</b>	2012 (Restated)
<b>Shareholders' equity</b>		
Share capital	3,437,541	3,440,078
Capital reserves	9,491,663	9,306,752
Surplus reserve	1,613,195	1,587,430
Retained profits	8,933,788	7,705,022
Proposed final dividends	103,126	—
Foreign currency translation differences	(1,046,665)	(582,699)
Total equity attributable to equity holders of the parent	22,532,648	21,456,583
Minority interests	1,093,041	1,136,256
<b>Total shareholders' equity</b>	<b>23,625,689</b>	22,592,839
<b>Total liabilities and shareholders' equity</b>	<b>100,079,497</b>	107,446,306

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

## CONSOLIDATED INCOME STATEMENT

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

For the year ended 31 December 2013

	2013	2012 (Restated)
<b>Operating revenue</b>	<b>75,233,724</b>	84,118,874
Less: Operating costs	<b>53,125,904</b>	64,091,546
Taxes and surcharges	<b>1,079,532</b>	1,191,951
Selling and distribution costs	<b>10,003,850</b>	11,180,633
Administrative expenses	<b>2,202,267</b>	2,281,472
Research and development costs	<b>7,383,892</b>	8,829,194
Finance expenses	<b>2,460,303</b>	2,230,680
Impairment losses	<b>1,589,486</b>	467,050
Add: Gains/(losses) from changes in fair values	<b>204,010</b>	(107,396)
Investment income	<b>914,406</b>	1,258,886
Including: Share of profits and losses of associates and joint ventures	<b>34,466</b>	48,123
<b>Operating profit/(loss)</b>	<b>(1,493,094)</b>	(5,002,162)
Add: Non-operating income	<b>3,465,428</b>	3,081,253
Less: Non-operating expenses	<b>144,491</b>	62,291
Including: Loss on disposal of non-current assets	<b>18,066</b>	19,446
<b>Total profit/(loss)</b>	<b>1,827,843</b>	(1,983,200)
Less: Income tax	<b>394,207</b>	621,421
<b>Net profit/(loss)</b>	<b>1,433,636</b>	(2,604,621)
Attributable to:		
Owners of the parent	<b>1,357,657</b>	(2,840,962)
Non-controlling interests	<b>75,979</b>	236,341
Earnings per share		
Basic	<b>RMB0.39</b>	RMB(0.83)
Diluted	<b>RMB0.39</b>	RMB(0.83)

**CONSOLIDATED INCOME STATEMENT (CONTINUED)**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

*For the year ended 31 December 2013*

	<b>2013</b>	2012 (Restated)
Other comprehensive income		
Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods		
Change in net liabilities or net profit arising from the re-measurement of defined benefit plans	<u>7,040</u>	<u>8,445</u>
Other comprehensive income will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions		
Gain arising from changes in the fair value of available-for-sale financial assets	<b>169,639</b>	30,792
Effective portion gain or loss arising from cash flow hedging instruments	<b>5,784</b>	(12,736)
Revaluation gain as at the valuation date upon transfer from owner-occupied properties to investment properties	—	792,769
Exchange differences on translation of foreign operations	<u>(461,725)</u>	<u>(52,445)</u>
	<b>(286,302)</b>	758,380
Other comprehensive income, net of income tax effect on respective items	<u>(279,262)</u>	<u>766,825</u>
Total comprehensive income	<u><b>1,154,374</b></u>	<u>(1,837,796)</u>
Attributable to:		
Owners of the parent	<u><b>1,055,746</b></u>	<u>(2,094,862)</u>
Non-controlling interests	<u><b>98,628</b></u>	<u>257,066</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

		2013								
		Equity attributable to equity holders of the parent								
		Share	Capital	Surplus	Retained	Proposed	Foreign			Total
		capital	reserve	reserve	profit	final	currency	Sub-total	Minority	shareholders'
						dividends	differences		interests	equity
I.	Current year's opening balance	3,440,078	9,306,752	1,587,430	7,705,022	—	(582,699)	21,456,583	1,136,256	22,592,839
II.	Changes during the year									
(I)	Net profit	—	—	—	1,357,657	—	—	1,357,657	75,979	1,433,636
(II)	Other comprehensive income	—	162,055	—	—	—	(463,966)	(301,911)	22,649	(279,262)
	Total comprehensive income	—	162,055	—	1,357,657	—	(463,966)	1,055,746	98,628	1,154,374
(III)	Shareholder's capital injection and capital reduction									
1.	Capital injection from shareholders	—	—	—	—	—	—	—	18,895	18,895
2.	Equity settled share expenses charged to equity	(2,537)	22,856	—	—	—	—	20,319	—	20,319
3.	Disposal of subsidiaries	—	—	—	—	—	—	—	(110,224)	(110,224)
4.	Capital reduction by shareholders	—	—	—	—	—	—	—	(48,990)	(48,990)
(IV)	Profit appropriation									
1.	Appropriation to surplus reserves	—	—	25,765	(25,765)	—	—	—	—	—
2.	Distribution to shareholders	—	—	—	—	—	—	—	(1,524)	(1,524)
3.	Proposed final dividends	—	—	—	(103,126)	103,126	—	—	—	—
4.	Other	—	—	—	—	—	—	—	—	—
(V)	Transfer of shareholders' equity									
1.	Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—
2.	Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—
3.	Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—
III.	Current year's closing balance	<u>3,437,541</u>	<u>9,491,663</u>	<u>1,613,195</u>	<u>8,933,788</u>	<u>103,126</u>	<u>(1,046,665)</u>	<u>22,532,648</u>	<u>1,093,041</u>	<u>23,625,689</u>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

		2012									
		Equity attributable to equity holders of the parent									
		Share capital	Capital reserve	Restricted shares subject to lock up	Surplus reserve	Retained profit	Proposed final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I.	Closing balance of previous year	3,440,078	8,539,807	(40,537)	1,587,891	10,545,984	686,190	(527,696)	24,231,717	2,057,058	26,288,775
	Add: changes in accounting policies	—	(54,336)	—	—	—	—	—	(54,336)	—	(54,336)
II.	Current year's opening balance	3,440,078	8,485,471	(40,537)	1,587,891	10,545,984	686,190	(527,696)	24,177,381	2,057,058	26,234,439
III.	Changes during the year										
	(I) Net profit/(loss)	—	—	—	—	(2,840,962)	—	—	(2,840,962)	236,341	(2,604,621)
	(II) Other comprehensive income (Restated)	—	801,103	—	—	—	—	(55,003)	746,100	20,725	766,825
	Total comprehensive income	—	801,103	—	—	(2,840,962)	—	(55,003)	(2,094,862)	257,066	(1,837,796)
	(III) Shareholder's capital injection and capital reduction										
	1. Capital injection from shareholders	—	13,456	40,537	—	—	—	—	53,993	9,502	63,495
	2. Equity settled share expenses charged to equity	—	6,722	—	—	—	—	—	6,722	—	6,722
	3. Disposal of subsidiaries	—	—	—	(461)	—	—	—	(461)	(384,860)	(385,321)
	4. Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	(576,637)	(576,637)
	(IV) Profit appropriation										
	1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
	2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)	(225,873)	(912,063)
	3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
	4. Other	—	—	—	—	—	—	—	—	—	—
	(V) Transfer of shareholders' equity										
	1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	—
	2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
	3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
IV.	Current year's closing balance	<u>3,440,078</u>	<u>9,306,752</u>	<u>—</u>	<u>1,587,430</u>	<u>7,705,022</u>	<u>—</u>	<u>(582,699)</u>	<u>21,456,583</u>	<u>1,136,256</u>	<u>22,592,839</u>

## CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

For the year ended 31 December 2013

	2013	2012
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	81,718,914	87,302,343
Refunds of taxes	7,084,639	7,588,437
Cash received relating to other operating activities	1,768,549	600,738
<b>Sub-total of cash inflows</b>	<u>90,572,102</u>	<u>95,491,518</u>
Cash paid for goods and services	62,736,010	64,944,598
Cash paid to and on behalf of employees	11,606,711	13,022,924
Cash paid for all types of taxes	5,801,983	6,607,571
Cash paid relating to other operating activities	7,852,820	9,366,409
<b>Sub-total of cash outflows</b>	<u>87,997,524</u>	<u>93,941,502</u>
<b>Net cash flows from operating activities</b>	<u>2,574,578</u>	<u>1,550,016</u>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	987,347	1,344,548
Cash received from return on investments	183,098	35,817
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	5,955	41,845
Net cash received from the disposal of subsidiaries	1,318,667	989,185
<b>Sub-total of cash inflows</b>	<u>2,495,067</u>	<u>2,411,395</u>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	2,336,926	2,377,654
Cash paid for acquisition of investments	1,820,312	1,636,871
<b>Sub-total of cash outflows</b>	<u>4,157,238</u>	<u>4,014,525</u>
<b>Net cash flows from investing activities</b>	<u>(1,662,171)</u>	<u>(1,603,130)</u>

**CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

*For the year ended 31 December 2013*

	<b>2013</b>	2012
<b>III. Cash flows from financing activities</b>		
Cash received from capital injection	<b>18,895</b>	8,100
Including: Capital injection into subsidiaries by minority shareholders	<b>18,895</b>	8,100
Cash received from borrowings	<b>23,357,872</b>	45,539,644
<b>Sub-total of cash inflows</b>	<b>23,376,767</b>	45,547,744
Cash repayment of borrowings	<b>24,372,924</b>	40,920,499
Cash payments for distribution of dividends, profits and for interest expenses	<b>1,685,508</b>	2,541,275
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	<b>157,567</b>	102,558
<b>Sub-total of cash outflows</b>	<b>26,058,432</b>	43,461,774
<b>Net cash flows from financing activities</b>	<b>(2,681,665)</b>	2,085,970
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<b>(772,103)</b>	(35,310)
<b>V. Net increase in cash and cash equivalents</b>	<b>(2,541,361)</b>	1,997,546
Add: cash and cash equivalents at beginning of year	<b>22,659,635</b>	20,662,089
<b>VI. Net balance of cash and cash equivalents at the end of year</b>	<b>20,118,274</b>	22,659,635

**BALANCE SHEET**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

At 31 December 2013

<b>Assets</b>	<b>2013</b>	<b>2012</b> (Restated)
<b>Current assets</b>		
Cash	12,163,330	16,010,506
Financial assets dealt with at fair value through current profit and loss	69,300	54,308
Bills receivable	2,851,182	3,762,831
Trade receivables	34,030,487	34,970,056
Factored trade receivables	2,084,134	3,545,295
Prepayments	29,328	44,783
Dividend receivable	1,970,264	6,242,066
Other receivables	10,454,633	4,551,048
Inventories	7,056,518	5,668,033
Amount due from customers for contract works	7,029,635	8,440,613
<b>Total current assets</b>	<b>77,738,811</b>	<b>83,289,539</b>
<b>Non-current assets</b>		
Available-for-sale financial assets	373,555	323,655
Long-term trade receivables	4,517,856	3,684,501
Factored long-term trade receivables	1,968,052	3,582,669
Long-term equity investments	6,430,526	6,492,492
Investment properties	1,496,338	1,381,593
Fixed assets	4,751,559	5,083,046
Construction in progress	14,393	54,714
Intangible assets	451,947	529,864
Deferred development costs	665,650	595,205
Deferred tax assets	762,009	581,507
Long-term deferred assets	50,778	57,993
Other non-current assets	3,596,641	3,374,559
<b>Total non-current assets</b>	<b>25,079,304</b>	<b>25,741,798</b>
<b>Total assets</b>	<b>102,818,115</b>	<b>109,031,337</b>

**BALANCE SHEET (CONTINUED)**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

At 31 December 2013

<b>Liabilities and shareholders' equity</b>	<b>2013</b>	<b>2012</b> (Restated)
<b>Current liabilities</b>		
Short-term loans	8,375,865	8,803,325
Financial liabilities dealt with at fair value through current profit and loss	12,575	42,325
Bank advances on factored trade receivables	2,122,707	3,548,713
Bills payable	10,250,993	13,775,960
Trade payables	34,200,975	33,885,695
Amount due to customers for contract works	2,496,029	2,600,053
Advances from customers	2,896,512	1,765,544
Salary and welfare payables	688,982	569,587
Taxes payable	(1,286,296)	(1,309,327)
Dividends payable	152	152
Other payables	17,178,123	16,553,959
Deferred income	80,401	133,179
Provisions	349,291	159,693
Long-term loans due within one year	—	4,518,134
<b>Total current liabilities</b>	<b>77,366,309</b>	<b>85,046,992</b>
<b>Non-current liabilities</b>		
Long-term loans	1,780,000	—
Bank advances on factored long-term trade receivables	1,968,052	3,582,669
Bonds payable	6,119,590	6,107,993
Long-term employees' remuneration payable	95,806	99,932
Deferred tax liabilities	138,400	138,400
Other non-current liabilities	1,430,509	538,241
<b>Total non-current liabilities</b>	<b>11,532,357</b>	<b>10,467,235</b>
<b>Total liabilities</b>	<b>88,898,666</b>	<b>95,514,227</b>
<b>Shareholders' equity</b>		
Share capital	3,437,541	3,440,078
Capital reserves	9,316,668	9,286,772
Surplus reserve	951,439	925,674
Retained profits	128,756	(118,276)
Proposed final dividends	103,126	—
Foreign currency translation differences	(18,081)	(17,138)
<b>Total shareholders' equity</b>	<b>13,919,449</b>	<b>13,517,110</b>
<b>Total liabilities and shareholders' equity</b>	<b>102,818,115</b>	<b>109,031,337</b>

## INCOME STATEMENT

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

For the year ended 31 December 2013

	2013	2012
<b>Operating revenue</b>	<b>68,951,943</b>	74,032,317
Less: Operating costs	<b>58,380,388</b>	67,605,154
Taxes and surcharges	<b>628,622</b>	495,897
Selling and distribution costs	<b>6,012,345</b>	7,076,114
Administrative expenses	<b>1,323,247</b>	1,389,811
Research and development costs	<b>2,173,020</b>	2,470,098
Finance expenses	<b>2,061,598</b>	1,719,956
Impairment losses	<b>1,149,141</b>	(30,026)
Add: Gains/(losses) from changes in fair values	<b>136,906</b>	(85,834)
Investment income	<b>1,910,787</b>	4,717,406
Including: Share of profits and losses of associates and joint ventures	<b>35,898</b>	16,007
<b>Operating profit/(loss)</b>	<b>(728,725)</b>	(2,063,115)
Add: Non-operating income	<b>898,979</b>	660,147
Less: Non-operating expenses	<b>50,200</b>	20,340
Including: Loss on disposal of non-current assets	<b>13,568</b>	9,326
<b>Total profit/(loss)</b>	<b>120,054</b>	(1,423,308)
Less: Income tax	<b>(255,869)</b>	4,491
<b>Net profit/(loss)</b>	<b>375,923</b>	(1,427,799)
Other comprehensive income		
Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods		
Change in net liabilities or net profit arising from the re-measurement of defined benefit plans	<b>7,040</b>	8,445
Other comprehensive income will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions		
Revaluation gain as at the valuation date upon transfer from owner-occupied properties to investment properties	—	784,264
Exchange differences on translation of foreign operations	<b>(943)</b>	(789)
	<b>(943)</b>	783,475
Other comprehensive income, net of income tax effect on respective items	<b>6,097</b>	791,920
<b>Total comprehensive income</b>	<b>382,020</b>	(635,879)

## STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

	2013						Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained profit	Proposed final dividends	Foreign currency translation differences	
I. Current year's opening balance	3,440,078	9,286,772	925,674	(118,276)	—	(17,138)	13,517,110
II. Changes during the year							
(I) Net profit/(loss)	—	—	—	375,923	—	—	375,923
(II) Other comprehensive income	—	7,040	—	—	—	(943)	6,097
Total comprehensive income	—	7,040	—	375,923	—	(943)	382,020
(III) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	(2,537)	22,856	—	—	—	—	20,319
3. Others	—	—	—	—	—	—	—
(IV) Profit appropriation							
1. Appropriation to surplus reserves	—	—	25,765	(25,765)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—
3. Proposed final dividends	—	—	—	(103,126)	103,126	—	—
4. Other	—	—	—	—	—	—	—
(V) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
(VI) Others	—	—	—	—	—	—	—
III. Current year's closing balance	<u>3,437,541</u>	<u>9,316,668</u>	<u>951,439</u>	<u>128,756</u>	<u>103,126</u>	<u>(18,081)</u>	<u>13,919,449</u>

## STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

	2012							
	Share capital	Capital reserve	Restricted shares subject to lock up	Surplus reserve	Retained profit	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Closing balance of previous year	3,440,078	8,534,677	(40,537)	925,674	1,309,523	686,190	(16,349)	14,839,256
Add: changes in accounting policies	—	(54,336)	—	—	—	—	—	(54,336)
II. Current year's opening balance	3,440,078	8,480,341	(40,537)	925,674	1,309,523	686,190	(16,349)	14,784,920
III. Changes during the year								
(I) Net profit/(loss)	—	—	—	—	(1,427,799)	—	—	(1,427,799)
(II) Other comprehensive income (Restated)	—	792,709	—	—	—	—	(789)	791,920
Total comprehensive income	—	792,709	—	—	(1,427,799)	—	(789)	(635,879)
(III) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	40,537	—	—	—	—	40,537
2. Equity settled share expenses charged to equity	—	6,722	—	—	—	—	—	6,722
3. Others	—	—	—	—	—	—	—	—
(IV) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Other	—	—	—	—	—	—	—	—
(V) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(VI) Others	—	7,000	—	—	—	—	—	7,000
IV. Current year's closing balance	<u>3,440,078</u>	<u>9,286,772</u>	<u>—</u>	<u>925,674</u>	<u>(118,276)</u>	<u>—</u>	<u>(17,138)</u>	<u>13,517,110</u>



## CASH FLOW STATEMENT

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

For the year ended 31 December 2013

	2013	2012
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	66,576,915	71,226,674
Refunds of taxes	4,662,932	5,350,217
Cash received relating to other operating activities	1,333,177	371,771
<b>Sub-total of cash inflows</b>	<u>72,573,024</u>	<u>76,948,662</u>
Cash paid for goods and services	63,215,952	66,348,554
Cash paid to and on behalf of employees	4,035,264	4,980,404
Cash paid for all types of taxes	712,708	753,781
Cash paid relating to other operating activities	4,622,116	4,946,799
<b>Sub-total of cash outflows</b>	<u>72,586,040</u>	<u>77,029,538</u>
<b>Net cash flows from operating activities</b>	<u>(13,016)</u>	<u>(80,876)</u>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	21,300	—
Cash received from return on investments	49,700	237,030
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	4,606	13,791
Net cash received from the disposal of subsidiaries	1,375,693	1,441,534
<b>Sub-total of cash inflows</b>	<u>1,451,299</u>	<u>1,692,355</u>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	937,565	953,535
Cash paid for acquisition of investments	264,674	1,689,990
<b>Sub-total of cash outflows</b>	<u>1,202,239</u>	<u>2,643,525</u>
<b>Net cash flows from investing activities</b>	<u>249,060</u>	<u>(951,170)</u>

**CASH FLOW STATEMENT (CONTINUED)**

(Prepared in accordance with PRC ASBEs)

(All amounts in RMB'000 unless otherwise stated) (English translation for reference only)

*For the year ended 31 December 2013*

	2013	2012
<b>III. Cash flows from financing activities</b>		
Cash received from borrowings	<u>15,074,922</u>	<u>25,619,869</u>
<b>Sub-total of cash inflows</b>	<u>15,074,922</u>	<u>25,619,869</u>
Cash repayment of borrowings	17,088,287	20,680,559
Cash payments for distribution of dividends, profits and for interest expenses	<u>1,413,923</u>	<u>1,848,438</u>
<b>Sub-total of cash outflows</b>	<u>18,502,210</u>	<u>22,528,997</u>
<b>Net cash flows from financing activities</b>	<u>(3,427,288)</u>	<u>3,090,872</u>
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<u>(328,755)</u>	<u>(59,123)</u>
<b>V. Net increase in cash and cash equivalents</b>	<u>(3,519,999)</u>	1,999,703
Add: cash and cash equivalents at beginning of year	<u>15,276,437</u>	<u>13,276,734</u>
<b>VI. Net balance of cash and cash equivalents at the end of year</b>	<u><u>11,756,438</u></u>	<u><u>15,276,437</u></u>

**APPENDIX 2: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HKFRSs  
AND NOTES THERETO**

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE  
INCOME**

(Prepared under Hong Kong Financial Reporting Standards)  
Year ended 31 December 2013

	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
<b>REVENUE</b>	<b>75,233,724</b>	84,118,874
Cost of sales	<b>(54,775,081)</b>	(65,545,460)
Gross profit	<b>20,458,643</b>	18,573,414
Other income and gains	<b>4,905,336</b>	4,609,205
Research and development costs	<b>(7,383,892)</b>	(8,829,194)
Selling and distribution expenses	<b>(10,158,537)</b>	(11,340,927)
Administrative expenses	<b>(2,258,739)</b>	(2,449,201)
Other expenses	<b>(2,118,997)</b>	(706,139)
Finance costs	<b>(1,650,437)</b>	(1,888,481)
Share of profits and losses of:		
Joint ventures	<b>1,446</b>	619
Associates	<b>33,020</b>	47,504
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>1,827,843</b>	(1,983,200)
Income tax expense	<b>(394,207)</b>	(621,421)
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>1,433,636</b>	(2,604,621)
Attributable to:		
Owners of the parent	<b>1,357,657</b>	(2,840,962)
Non-controlling interests	<b>75,979</b>	236,341
	<b>1,433,636</b>	(2,604,621)

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**

(Prepared under Hong Kong Financial Reporting Standards)  
Year ended 31 December 2013

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i> (Restated)
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Cash flow hedges — effective portion of changes in fair value of hedging instruments arising during the year	5,784	(12,736)
Changes in fair value of available-for-sale investments	169,639	30,792
Revaluation gain upon transfer from owner-occupied properties to investment properties	—	932,669
Income tax effect	—	(139,900)
Exchange differences on translation of foreign operations	(461,725)	(52,445)
	<hr/>	<hr/>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(286,302)	758,380
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
Actuarial gains and losses on defined benefit plans	7,040	8,445
	<hr/>	<hr/>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<b>(279,262)</b>	<b>766,825</b>
	<hr/>	<hr/>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<b>1,154,374</b>	<b>(1,837,796)</b>
	<hr/> <hr/>	<hr/> <hr/>
Attributable to:		
Owners of the parent	1,055,746	(2,094,862)
Non-controlling interests	98,628	257,066
	<hr/>	<hr/>
	<b>1,154,374</b>	<b>(1,837,796)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>		
Basic	<b>RMB0.39</b>	<b>RMB(0.83)</b>
	<hr/> <hr/>	<hr/> <hr/>
Diluted	<b>RMB0.39</b>	<b>RMB(0.83)</b>
	<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2013

	31 December 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i> (Restated)
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	7,697,841	8,011,028
Prepaid land lease payments	1,064,021	889,351
Intangible assets	3,081,233	2,624,944
Investment properties	1,855,246	1,686,158
Investments in joint ventures	66,891	46,814
Investments in associates	411,146	408,954
Available-for-sale investments	1,630,271	1,092,335
Long-term trade receivables	366,762	1,206,642
Factored long-term trade receivables	2,311,525	4,018,484
Deferred tax assets	1,353,033	1,218,605
Pledged deposits	3,396,897	3,157,077
Long-term prepayments, deposits and other receivables	415,700	447,226
	<hr/>	<hr/>
Total non-current assets	23,650,566	24,807,618
<b>CURRENT ASSETS</b>		
Prepaid land lease payments	23,649	19,677
Inventories	12,434,352	11,442,389
Amount due from customers for contract works	12,137,144	13,666,100
Trade and bills receivables	24,893,928	26,350,396
Factored trade receivables	3,338,801	4,165,514
Prepayments, deposits and other receivables	4,874,021	5,227,077
Equity investment at fair value through profit or loss	—	44,919
Derivative financial instruments	217,454	61,378
Pledged deposits	708,641	1,380,180
Time deposits with original maturity of over three months	76,120	86,608
Cash and cash equivalents	20,118,274	22,659,635
	<hr/>	<hr/>
Total current assets	78,822,384	85,103,873

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2013

	<b>31 December 2013</b>	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
<b>CURRENT LIABILITIES</b>		
Trade and bills payables	<b>24,990,555</b>	29,593,979
Amount due to customers for contract works	<b>3,682,564</b>	3,459,545
Other payables and accruals	<b>15,311,007</b>	14,833,771
Derivative financial instruments	<b>67,779</b>	105,739
Interest-bearing bank borrowings	<b>15,342,957</b>	18,429,893
Bank advances on factored trade receivables	<b>3,377,374</b>	4,168,932
Bonds cum warrants	—	4,018,134
Tax payable	<b>557,059</b>	608,336
Dividends payable	<b>34,963</b>	205,783
	<hr/>	<hr/>
Total current liabilities	<b>63,364,258</b>	75,424,112
	<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>	<b>15,458,126</b>	9,679,761

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2013

	31 December 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i> (Restated)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>39,108,692</b>	<b>34,487,379</b>
<b>NON-CURRENT LIABILITIES</b>		
Derivative financial instruments	4,286	10,747
Bonds payable	6,119,590	6,107,993
Interest-bearing bank borrowings	5,385,673	989,990
Bank advances on factored long-term trade receivables	2,311,525	4,018,484
Financial guarantee contract	3,689	3,689
Deferred tax liabilities	139,900	139,900
Provision for retirement benefits	95,806	99,932
Other long-term payables	1,422,534	523,805
Total non-current liabilities	<b>15,483,003</b>	<b>11,894,540</b>
Net assets	<b>23,625,689</b>	<b>22,592,839</b>
<b>EQUITY</b>		
Equity attributable to owners of the parent		
Issued capital	3,437,541	3,440,078
Reserves	18,991,981	18,016,505
Proposed final dividend	103,126	—
	<b>22,532,648</b>	<b>21,456,583</b>
Non-controlling interests	<b>1,093,041</b>	<b>1,136,256</b>
Total equity	<b>23,625,689</b>	<b>22,592,839</b>

**Hou Weigui**  
*Director*

**Shi Lirong**  
*Director*

## 1. BASIS OF PREPARATION

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

### **Basis of Consolidation**

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.



## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 Amendments	Amendments to HKAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 36 Amendments	Amendments to HKAS 36 Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets (early adopted)
HK(IFRIC) — Int 20 Annual Improvements 2009–2011 Cycle	Stripping Costs in the Production Phase of a Surface Mine Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 19 (2011), amendments to HKFRS 10, HKFRS 11, HKFRS 12, HKAS 1 and HKAS 36, and certain amendments included in Annual Improvements 2009–2011 Cycle, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

- (a) HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC) — Int 12 Consolidation — Special Purpose Entities. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

- (b) HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC) — Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).
- (c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries, joint ventures and associates are included in notes 20, 21 and 22 to the financial statements.
- (d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC) — Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.
- (e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and financial instruments are included in notes 16 and 53 to the financial statements.
- (f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of profit or loss and other comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

- (g) HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. HKAS 19 (2011) changes the accounting for defined benefit plans. The revised standard removes the choice to defer the recognition of actuarial gains and losses. All actuarial gains and losses are required to be recognised immediately in OCI. The interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a net interest amount under HKAS 19 (2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. Prior to the adoption of HKAS 19 (2011), the Group elected to recognise actuarial gains or losses as income or expense over the expected average remaining service periods of the employees participating in the defined benefit plan when the net cumulative unrecognised actuarial gains or losses for the plan at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. Upon the adoption of HKAS 19 (2011), all actuarial gains and losses are recognised in OCI immediately. As a result, all deferred actuarial gains and losses as at 1 January 2012 and 31 December 2012 were recognised in OCI and the actuarial gains and losses recognised in the statement of profit or loss for the year ended 31 December 2012 was adjusted to OCI. In addition, the interest cost and expected return on plan assets recorded in 2012 has been replaced by a net interest amount.

Furthermore, upon the adoption of HKAS 19 (2011), all past service costs are recognised at the earlier of when an amendment/curtailment occurs and when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. The balance of unrecognised service costs as at 1 January 2012 was charged to retained profits as at 1 January 2012 and the amortisation of past service costs for the year ended 31 December 2012 has been adjusted. HKAS 19 (2011) also requires more extensive disclosures which are included in note 37 to the financial statements.

Other than the changes to the accounting for defined benefit plans, HKAS 19 (2011) also changes the timing of recognition for termination benefits and the classification of short term employee benefits. The revised standard requires termination benefits outside of a wider restructuring to be recognised only when the offer becomes legally binding and cannot be withdrawn. Under the revised standard, the distinction between short term and other long term employee benefits is now based on the expected timing of settlement rather than employee entitlement. As the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period or had no events giving rise to termination benefits, the changes to the accounting for these benefits have had no effect on the financial position or performance of the Group.

The effects of the changes to the accounting for the Group's defined benefit plan are summarised below:

Impact on the consolidated statement of profit or loss and other comprehensive income at 31 December:

	2012
Increase in remeasurement gain on defined benefit plans	<u>8,445</u>
Increase in total comprehensive income for the year	<u><u>8,445</u></u>
Attributable to:	
Owners of the parent	8,445

Impact on the consolidated statement of financial position at 31 December:

	2012
Increase in defined benefit obligations	<u>45,891</u>
Increase in total non-current liabilities	<u>45,891</u>
Decrease in net assets and total equity	<u><u>45,891</u></u>
Impact on the consolidated statement of financial position at 1 January:	
Increase in defined benefit obligations	<u>54,336</u>
Increase in total non-current liabilities	<u>54,336</u>
Decrease in net assets and total equity	<u><u>54,336</u></u>

- (h) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.
- (i) Annual Improvements 2009–2011 Cycle issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- **HKAS 1 Presentation of Financial Statements:** Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- **HKAS 32 Financial Instruments: Presentation:** Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

### **3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS**

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

HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 <sup>3</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) — Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — Investment Entities <sup>1</sup>
HKAS 19 Amendments	Amendments to HKAS 19 Employee Benefits — Defined Benefit Plans: Employee Contributions <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
HKAS 39 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
HK(IFRIC) — Int 21	Levies <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> No mandatory effective date yet determined but is available for adoption

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

#### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.
- (b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.
- (c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit/(loss) before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group’s financial instruments as well as head office and corporate expenses are excluded from the measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

“ZTEMT” product mainly comprises mobile phone and related accessories. The said product was included in “Telecommunication software systems, services and other products” in 2012 and prior years as mobile phone revenue only accounted for a small proportion of the said product’s revenue and mobile phone was not classified as a separate item. However, the proportion of mobile phone revenue in the said product started to increase in 2013, therefore the Company reclassified the said product to “Terminals” and restated the data breakdown by product for the same period of 2012, accordingly.

<b>Year ended</b>	<b>Telecommunications software systems, services and other products</b>			<b>Total</b>
<b>31 December 2013</b>	<b>Networks</b>	<b>Terminals</b>	<b>products</b>	<b>RMB'000</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Telecommunications system contracts	40,695,724	—	12,473,948	53,169,672
Sale of goods and services	—	21,702,058	361,994	22,064,052
	<u>40,695,724</u>	<u>21,702,058</u>	<u>12,835,942</u>	<u>75,233,724</u>
<b>Segment results</b>	<b>9,208,655</b>	<b>17,946</b>	<b>1,797,837</b>	<b>11,024,438</b>
Bank and other interest income				355,958
Dividend income and unallocated gains				4,549,378
Corporate and other unallocated expenses				(12,485,960)
Finance costs				(1,650,437)
Share of profits and losses of associates and joint ventures				34,466
Profit before tax				<u>1,827,843</u>
<b>Segment assets</b>	<b>33,992,931</b>	<b>10,767,784</b>	<b>10,721,797</b>	<b>55,482,512</b>
Investments in joint ventures				66,891
Investment in associates				411,146
Corporate and other unallocated assets				<u>46,512,401</u>
Total assets				<u>102,472,950</u>
<b>Segment liabilities</b>	<b>8,626,156</b>	<b>800,876</b>	<b>2,720,797</b>	<b>12,147,829</b>
Corporate and other unallocated liabilities				<u>66,699,432</u>
Total liabilities				<u>78,847,261</u>
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	859,791	458,506	271,189	1,589,486
Depreciation and amortisation	944,029	503,428	297,759	1,745,216
Capital expenditure*	<u>1,453,649</u>	<u>775,196</u>	<u>458,500</u>	<u>2,687,345</u>



\* Capital expenditure consists of additions to property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

Year ended	Telecommunications software systems, services and other			Total
31 December 2012 (Restated)	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	products <i>RMB'000</i>	<i>RMB'000</i>
<b>Segment revenue:</b>				
Telecommunications system contracts	41,602,641	—	13,511,582	55,114,223
Sale of goods and services	—	28,818,562	186,089	29,004,651
	<u>41,602,641</u>	<u>28,818,562</u>	<u>13,697,671</u>	<u>84,118,874</u>
<b>Segment results</b>	5,806,439	349,102	1,499,203	7,654,744
Bank and other interest income				249,893
Dividend income and unallocated gains				4,359,312
Corporate and other unallocated expenses				(12,406,791)
Finance costs				(1,888,481)
Share of profits and losses of associates and joint ventures				48,123
Loss before tax				<u>(1,983,200)</u>
<b>Segment assets</b>	36,036,839	12,947,554	11,865,132	60,849,525
Investments in joint ventures				46,814
Investment in associates				408,954
Corporate and other unallocated assets				48,606,198
Total assets				<u>109,911,491</u>
<b>Segment liabilities</b>	10,298,502	1,064,313	3,390,784	14,753,599
Corporate and other unallocated liabilities				72,565,053
Total liabilities				<u>87,318,652</u>
<b>Other segment information:</b>				
Impairment losses recognised in the statement of profit or loss	230,989	160,008	76,053	467,050
Depreciation and amortisation	766,053	530,653	252,223	1,548,929
Capital expenditure	<u>1,367,961</u>	<u>947,600</u>	<u>450,401</u>	<u>2,765,962</u>

## Geographical information

### (a) Revenue from external customers

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i> (Restated)
The PRC (place of domicile)	35,635,964	39,455,593
Asia (excluding the PRC)	13,849,495	16,062,667
Africa	5,866,115	7,820,599
Europe, Americas and Oceania	19,882,150	20,780,015
	<u>75,233,724</u>	<u>84,118,874</u>

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

### (b) Non-current assets

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
The PRC (place of domicile)	11,497,243	11,031,085
Asia (excluding the PRC)	990,114	1,070,231
Africa	328,789	334,785
Europe, Americas and Oceania	882,195	775,380
	<u>13,698,341</u>	<u>13,211,481</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets, investments in joint ventures and investments in associates.

## 5. REVENUE

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i> (Restated)
<b>Revenue</b>		
Telecommunications system contracts	53,169,672	55,114,223
Sale of goods	21,702,058	28,818,562
Rendering of services	361,994	186,089
	<u>75,233,724</u>	<u>84,118,874</u>

## 6. PROFIT/(LOSS) BEFORE TAX

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Cost of goods and services	39,205,492	45,255,672
Depreciation	967,593	1,042,966
Amortisation of land lease payments	21,138	17,233
Amortisation of intangible assets other than deferred development costs	210,671	125,690
Research and development costs:		
Deferred development costs amortised	545,814	363,040
Current year expenditure	7,869,106	9,350,518
Less: Deferred development costs	<u>(1,031,028)</u>	<u>(884,364)</u>
	<u>7,383,892</u>	<u>8,829,194</u>
Fair value (gains)/losses, net*:		
Derivative instruments	(174,829)	49,456
Equity investments held for trading	9,523	42,261
Investment properties	(38,704)	15,679
Impairment of trade receivables*	1,109,782	330,484
Provision for warranties	808,942	303,007
Write-down of inventories to net realisable value**	479,704	134,007
Impairment of items of property, plant and equipment	—	2,559
Minimum lease payments under operating leases on land and buildings	586,059	622,478
Contingent rental income in respect of operating leases	(114,309)	(159,055)
Auditors' remuneration	6,962	6,985
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	9,652,692	11,653,643
Equity-settled share option expense	29,707	6,722
Retirement benefit scheme contributions:		
Defined benefit pension scheme	4,178	6,314
Defined contribution pension schemes	881,361	931,913
	<u>10,567,938</u>	<u>12,598,592</u>
Foreign exchange loss*	864,721	136,113
Loss on disposal of items of property, plant and equipment*	18,066	19,446
Gain on disposal of equity investment at fair value through profit or loss	(20,904)	—
Gain on disposal of subsidiaries	(866,677)	(1,194,242)
Gain on deemed disposal of interest in an associate	—	(61,223)
Fair value losses of assumed liabilities in a previous disposal of a subsidiary	—	67,295
(Gain)/loss on disposal of derivative financial instruments	30,548	(6,908)
Gain on disposal of available-for-sale investments	(667)	—
Others	<u>—</u>	<u>(2,616)</u>

\* The fair value losses, impairment of trade receivables, foreign exchange loss, loss on disposal of items of property, plant and equipment and loss/(gain) on disposal of subsidiaries are included in “Other expenses” on the face of the consolidated statement of profit or loss and other comprehensive income.

\*\* Write-down of inventories to net realisable value are included in “Cost of sales” on the face of the consolidated statement of profit or loss and other comprehensive income.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	767,697	856,066
Interest on bonds cum warrants	13,866	165,936
Interest on bonds payable	<u>263,597</u>	<u>142,781</u>
Total interest expense on financial liabilities not at fair value through profit or loss	1,045,160	1,164,783
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	<u>605,277</u>	<u>723,698</u>
	<u><u>1,650,437</u></u>	<u><u>1,888,481</u></u>

## 8. INCOME TAX

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Group:		
Current — Hong Kong	50,586	(5,380)
Current — Mainland China	402,177	584,672
Current — Overseas	75,872	131,898
Deferred	<u>(134,428)</u>	<u>(89,769)</u>
Total tax charge for the year	<u><u>394,207</u></u>	<u><u>621,421</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

As a hi-tech enterprise in Shenzhen, the Company has obtained the certificate as a national-grade hi-tech enterprise, with which the Company enjoyed an enterprise income tax rate of 15% for the years from 2011 to 2013.

## 9. DIVIDEND

	<b>2013</b> <i>RMB'000</i>	2012 <i>RMB'000</i>
Proposed final — RMB0.03 (2012: Nil) per ordinary share	<b><u>103,126</u></b>	<u>—</u>

The profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings/(loss) per share amount is computed by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 3,437,541,000 (2012: 3,430,952,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares. The effect of shares assumed to have been issued at no consideration has been excluded from the computation of diluted loss per share for the year ended December 31, 2013 as its effects would be anti-dilutive.

The calculations of basic and diluted earnings/(loss) per share are as follows:

	<b>2013</b> <i>RMB'000</i>	2012 <i>RMB'000</i>
Earnings		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	<b><u>1,357,657</u></b>	<u>(2,840,962)</u>
	<b>Number of shares</b>	
	<b>2013</b>	2012
	<i>'000</i>	<i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<b>3,437,541</b>	3,430,952
Share options	<b><u>1,767</u></b>	<u>—</u>
Adjusted weighted average number of ordinary shares in issue	<b><u>3,439,308</u></b>	<u>3,430,952</u>

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

	Group		Company	
	2013	2012	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	<b>29,094,859</b>	30,536,450	<b>40,070,717</b>	42,018,279
Impairment	<b>(3,834,169)</b>	(2,979,412)	<b>(2,822,429)</b>	(2,085,831)
	<b>25,260,690</b>	27,557,038	<b>37,248,288</b>	39,932,448
Current portion	<b>(24,893,928)</b>	(26,350,396)	<b>(36,881,669)</b>	(38,732,887)
Long-term portion	<b>366,762</b>	1,206,642	<b>366,619</b>	1,199,561

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

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

	Group		Company	
	2013	2012	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	<b>19,962,075</b>	23,293,955	<b>24,162,287</b>	30,668,406
7 to 12 months	<b>2,695,215</b>	3,147,913	<b>3,301,829</b>	2,035,926
1 to 2 years	<b>2,407,100</b>	1,007,925	<b>5,798,481</b>	3,658,347
2 to 3 years	<b>196,300</b>	107,245	<b>2,098,737</b>	1,009,775
Over 3 years	—	—	<b>1,886,954</b>	2,559,994
	<b>25,260,690</b>	27,557,038	<b>37,248,288</b>	39,932,448
Current portion of trade and bills receivables	<b>(24,893,928)</b>	(26,350,396)	<b>(36,881,669)</b>	(38,732,887)
Long-term portion	<b>366,762</b>	1,206,642	<b>366,619</b>	1,199,561

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

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	<b>2,979,412</b>	2,682,078	<b>2,085,831</b>	2,079,511
Impairment losses recognised	<b>1,167,414</b>	378,295	<b>840,290</b>	37,529
Amount written off as uncollectible	<b>(255,025)</b>	(33,150)	<b>(103,692)</b>	(6,565)
Impairment losses reversed	<b>(57,632)</b>	(47,811)	—	(24,644)
At 31 December	<b><u>3,834,169</u></b>	<u>2,979,412</u>	<b><u>2,822,429</u></b>	<u>2,085,831</u>

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB590,288,000 (2012: RMB639,662,000) with a carrying amount before provision of RMB590,288,000 (2012: RMB639,662,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	<b>3,933,387</b>	5,086,352	<b>5,301,870</b>	9,174,188
Less than one year past due	<b>19,590,411</b>	13,948,065	<b>17,444,113</b>	22,537,797
	<b><u>23,523,798</u></b>	<u>19,034,417</u>	<b><u>22,745,983</u></b>	<u>31,711,985</u>

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

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

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

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Subsidiaries	—	—	<b>25,020,281</b>	21,690,412
The controlling shareholder	<b>1,031</b>	—	—	—
Joint ventures	<b>81,048</b>	346	<b>80,971</b>	100,819
Associates	<b>10,553</b>	100,819	—	—
Other related companies	<b>94,862</b>	2,654	<b>89,928</b>	618
	<b>187,494</b>	103,819	<b>25,191,180</b>	21,791,849

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

The Group has pledged trade receivables of RMB750,000,000 and bills receivables of RMB102,000,000 (2012: RMB950,000,000 and RMB617,229,000) to secure the bank borrowings.

## 12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	<b>24,351,477</b>	29,083,388	<b>44,153,242</b>	47,305,924
7 to 12 months	<b>144,334</b>	177,299	<b>96,562</b>	110,417
1 to 2 years	<b>181,730</b>	267,454	<b>191,386</b>	237,015
2 to 3 years	<b>258,957</b>	31,811	<b>5,217</b>	4,212
Over 3 years	<b>54,057</b>	34,027	<b>5,561</b>	4,087
	<b>24,990,555</b>	29,593,979	<b>44,451,968</b>	47,661,655



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

	<b>Group</b>		<b>Company</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Subsidiaries	—	—	<b>38,271,764</b>	43,041,820
The controlling shareholder	<b>56,507</b>	65,376	—	—
Associates	<b>56</b>	19,080	—	—
Other related companies	<b>227,868</b>	138,991	<b>1,515</b>	87
	<b>284,431</b>	223,447	<b>38,273,279</b>	43,041,907

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

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

### 13. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB 0.3 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,437,541,278 shares as at 31 December 2013, the profit distribution proposal is subject to approval by the annual general meeting of the Company.