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# ZTE中兴

**ZTE CORPORATION**  
**中興通訊股份有限公司**

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

## **2012 ANNUAL REPORT SUMMARY AND RESULTS ANNOUNCEMENT**

### **1. IMPORTANT**

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that this annual report summary and results announcement does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

The 2012 annual report (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 Fortieth meeting of the Fifth 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. Mr. Xie Weiliang, Vice Chairman, was unable to attend the Meeting due to work reasons, and has authorised Mr. Dong Lianbo, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the Meeting due to work reasons, and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Shi Lirong, Director, was unable to attend the Meeting due to work reasons, and has authorised Mr. Yin Yimin, Director, to vote on his behalf.

1.4 The respective financial statements of ZTE Corporation and its subsidiaries (the “Group”) for the year ended 31 December 2012 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 Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness and completeness of the financial reports contained in the Annual Report.
- 1.6 In view of the actual operating conditions of the Company, no profit distribution or capitalisation of capital reserve for 2012 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	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, 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>	fengjianxiong@zte.com.cn	

### 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, People's Republic of China		
<b>Tel</b>	+86 755 26770282		
<b>Fax</b>	+86 755 26770286		
<b>E-mail</b>	fengjianxiong@zte.com.cn		

### 3. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

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

*Unit: RMB in millions*

Item	For the year ended	For the year ended	Year-on-year change	For the year ended
	31 December 2012	31 December 2011		31 December 2010
Operating revenue	<b>84,219.4</b>	86,254.5	(2.36%)	69,906.7
Operating profit	<b>(5,002.2)</b>	429.5	(1,264.66%)	2,589.6
Total profit	<b>(1,983.2)</b>	2,635.1	(175.26%)	4,360.2
Net profit attributable to shareholders of the listed company	<b>(2,841.0)</b>	2,060.2	(237.90%)	3,250.2
Net profit after extraordinary items attributable to shareholders of the listed company	<b>(4,190.6)</b>	1,067.2	(492.67%)	2,732.9
Net cash flow from operating activities	<b>1,550.0</b>	(1,812.2)	185.53%	941.9

*Unit: RMB in millions*

Item	As at	As at	Year-on-year change	As at
	31 December 2012	31 December 2011		31 December 2010
Total assets	<b>107,446.3</b>	105,368.1	1.97%	84,152.4
Total liabilities	<b>84,807.6</b>	79,079.3	7.24%	59,190.4
Owners' equity attributable to shareholders of the listed company	<b>21,502.5</b>	24,231.7	(11.26%)	23,093.9
Share capital ( <i>million shares</i> )	<b>3,440.1</b>	3,440.1	—	2,866.7

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

Item	For the year ended	For the year ended	Year-on-year change	For the year ended
	31 December 2012	31 December 2011		31 December 2010
Basic earnings per share (RMB/share) <sup>Note 1</sup>	(0.83)	0.61	(236.07%)	0.98
Diluted earnings per share (RMB/share) <sup>Note 2</sup>	(0.83)	0.61	(236.07%)	0.96
Basic earnings per share after extraordinary items (RMB/share) <sup>Note 1</sup>	(1.22)	0.31	(493.55%)	0.82
Weighted average return on net assets (%)	(12.43%)	8.74%	Decrease by 21.17 percentage points	15.32%
Weighted average return on net assets after extraordinary items (%)	(18.34%)	4.53%	Decrease by 22.87 percentage points	12.88%
Net cash flow from operating activities per share (RMB/share) <sup>Note 3</sup>	0.45	(0.53)	184.91%	0.28
Item	As at 31 December 2012	As at 31 December 2011	Year-on-year change	As at 31 December 2010
Net asset per share attributable to shareholders of the listed company (RMB/share) <sup>Note 3</sup>	6.26	7.06	(11.33%) Increase by 3.88 percentage points	6.87
Gearing ratio (%)	78.93%	75.05%	points	70.34%

*Note 1:* Basic earnings per share for the reporting period 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. Basic earnings per share for 2010 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 62,407,186 restricted shares remaining in lock-up, and have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company;

*Note 2:* As certain Subject Share quotas under the Share Incentive Scheme of the Company have given rise to 0, 6,874,194 and 61,864,408 potentially dilutive ordinary shares for the reporting period, 2011 and 2010, respectively, therefore diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for 2010 have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company;

*Note 3:* Net cash flow from operating activities per share and net asset per share attributable to shareholders of the listed company 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. The corresponding indicators for 2010 was calculated on the basis of the total share capital at the end of the period less 62,407,186 restricted shares remaining in lock-up and have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

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

*Unit: RMB in millions*

<b>Item</b>	<b>Amount for the year ended 31 December 2012</b>	Amount for the year ended 31 December 2011	Amount for the year ended 31 December 2010
Non-operating income	<b>559.6</b>	362.9	259.3
Gains/(losses) from fair value change	<b>(107.4)</b>	(88.7)	83.6
Investment gains	<b>1,197.7</b>	982.2	447.0
Add: Others	—	74.8	50.3
Less: Gains/losses arising from the disposal of non-current assets	<b>19.4</b>	30.6	24.1
Less: Other non-operating expenses	<b>42.8</b>	132.4	207.4
Less: Effect of income tax	<b>238.1</b>	175.2	91.3
<b>Total</b>	<b><u>1,349.6</u></b>	<u>993.0</u>	<u>517.4</u>

### 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				
	2012	2011	2010	2009	2008
			(Restated)		
Revenue	<b>84,219.4</b>	86,254.5	69,906.7	60,272.6	44,293.4
Cost of sales	<b>(65,545.5)</b>	(62,086.4)	(48,241.8)	(41,667.8)	(29,911.5)
Gross profit	<b>18,673.9</b>	24,168.1	21,664.9	18,604.8	14,381.9
Other income and revenue	<b>4,508.7</b>	3,664.4	2,639.8	1,723.5	1,295.7
Research and development expenses	<b>(8,829.2)</b>	(8,492.6)	(7,092.0)	(5,781.6)	(3,994.1)
Selling and distribution costs	<b>(11,340.9)</b>	(11,112.2)	(8,890.2)	(7,157.8)	(5,401.0)
Administrative expenses	<b>(2,449.2)</b>	(2,605.6)	(2,524.0)	(2,735.2)	(2,190.0)
Other expenses	<b>(706.1)</b>	(1,684.1)	(753.8)	(603.2)	(1,159.7)
Profit from operating activities	<b>(142.8)</b>	3,938.0	5,044.7	4,050.5	2,932.8
Finance costs	<b>(1,888.5)</b>	(1,374.2)	(728.6)	(751.7)	(690.2)
Share of profit and loss of jointly controlled entities and associates	<b>48.1</b>	71.3	44.1	26.0	19.9
Profit before tax	<b>(1,983.2)</b>	2,635.1	4,360.2	3,324.8	2,262.5
Tax	<b>(621.4)</b>	(392.0)	(883.7)	(629.1)	(350.6)
Profit before minority interests	<b>(2,604.6)</b>	2,243.1	3,476.5	2,695.7	1,911.9
Attributable to:					
Minority interests	<b>(236.3)</b>	(182.9)	(226.3)	(237.6)	(251.7)
Attributable to:					
Shareholders of parent company	<b>(2,840.9)</b>	2,060.2	3,250.2	2,458.1	1,660.2

Unit: RMB in millions

Assets and liabilities	2012	As at 31 December			
		2011	2010	2009	2008
Total assets	<b>109,911.5</b>	107,784.1	85,509.2	69,464.9	52,228.8
Total liabilities	<b>87,272.8</b>	81,495.3	60,547.2	51,516.0	37,045.3
Minority interests	<b>1,136.3</b>	2,057.1	1,868.1	1,123.6	934.0
Shareholders' equity attributable to parent company	<b>21,502.5</b>	24,231.7	23,093.9	16,825.3	14,249.5

### 3.4.2 Major Financial Indicators of the Group for the past five years Prepared in Accordance With HKFRSs

Item	2012	2011	2010	2009	2008
Basic earnings per share ( <i>RMB/share</i> ) <sup>Note 1</sup>	<b>(0.83)</b>	0.61	0.98	0.78	0.53
Net asset per share ( <i>RMB/share</i> ) <sup>Note 2</sup>	<b>6.26</b>	7.06	6.87	5.31	4.53
Fully diluted return on net assets (%)	<b>(13.21%)</b>	8.50%	14.07%	14.61%	11.65%

*Note 1:* Basic earnings per share for the reporting period 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:* Net asset per share attributable to shareholders of the listed company 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 indicator 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.

### 3.5 THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2012 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSS.

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

##### 4.1 Total number of shareholders, top ten shareholders of the Company and top ten holders of shares not subject to lock-up during the end of the year

###### Total numbers of shareholders

As at 31 December 2012	136,777 shareholders (of which 136,414 were holders of A shares and 363 were holders of H shares)
As at 21 March 2013, namely 5 trading days prior to the publication of the annual results	129,609 shareholders (of which 129,249 were holders of A shares and 360 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 (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Shenzhen Zhongxinxin Telecommunication Equipment Company Limited (“Zhongxinxin”)	State-owned shareholders	30.76%	1,058,191,944	0	0	None
2. HKSCC Nominees Limited	Foreign shareholders	18.27%	628,357,601	+177,778	0	Unknown
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	2.36%	81,159,637	+3,823,798	0	Unknown
4. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	1.72%	59,043,306	+38,913,627	0	Unknown
5. CITIC Trust Co.,Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	0	Unknown
6. Hunan Nantian (Group) Co., Ltd	State-owned shareholders	1.09%	37,450,609	0	0	Unknown
7. Agricultural Bank of China — Franklin Sealand Flex Cap Stock Fund	Others	1.05%	36,291,326	+20,085,307	0	Unknown
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.99%	33,926,577	—95,000	0	Unknown
9. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	Others	0.88%	30,209,476	+1,718,551	0	Unknown
10. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	0.74%	25,569,044	0	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	628,357,601	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	81,159,637	A shares
4. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	59,043,306	A shares
5. CITIC Trust Co.,Ltd. — Wealth Management 06	58,194,000	A shares
6. Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
7. Agricultural Bank of China — Franklin Sealand Flex Cap Stock Fund	36,291,326	A shares
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	33,926,577	A shares
9. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	30,209,476	A shares
10. China Life Insurance (Group) Company — Traditional — General Insurance Products	25,569,044	A shares

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

*Note 1:* During the reporting period, 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 30.76% 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	None

## 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 2012 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 2012 amounted to approximately RMB406 million, RMB171 million and RMB-454 million, respectively. As at 31 December 2012, total assets and total liabilities amounted to approximately RMB6,630 million and RMB1,318 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

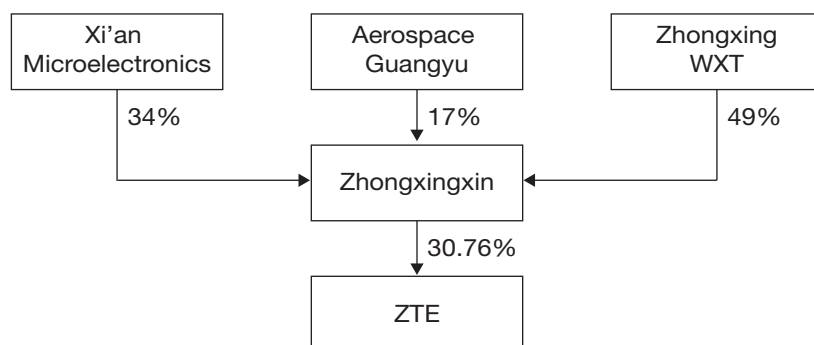
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin shall have the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. 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 stateowned research institute, which was established in 1965 with a start-up capital of RMB198,530,000. Its organization number is H0420141-X. The legal representative of the institute is Zhang Junchao. It is the only specialized research institute in China which integrates and complements the research, development and production of semiconductor integrated circuits, 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 and warehousing. (Import and export operations are conducted in accordance with relevant regulations). Import and export operations (which are conducted in accordance with Shen Mao Jin [2000] No. 50 Qualifications Certificate).

Zhongxing WXT is a private high-technology enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. 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 2012:



## 5. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### 5.1 Changes in the Shareholdings of the Company's Directors, Supervisors and Senior Management and Annual Remuneration

The effective shareholdings in the issued share capital of the Company held by and Subject Shares under the Share Incentive Scheme granted to 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 (shares)	Reason for the change	Total payable remuneration received from the Company at the end of 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	71	3/2010	3/2013	1,187,472	110,000	—	1,297,472	Note 3	32.7	No
2	Lei Fanpei <sup>Note 1</sup>	Vice Chairman	Resigned	Male	49	3/2010	2/2012	—	—	—	—		1.7	No
3	Zhang Jianheng	Vice Chairman	Incumbent	Male	51	4/2012	3/2013	—	—	—	—		7.5	No
4	Xie Weiliang	Vice Chairman	Incumbent	Male	56	3/2010	3/2013	32,760	—	—	32,760		10.0	Yes
5	Wang Zhanchen	Director	Incumbent	Male	60	3/2010	3/2013	—	—	—	—		10.0	No
6	Zhang Junchao	Director	Incumbent	Male	59	3/2010	3/2013	32,760	—	—	32,760		10.0	No
7	Dong Lianbo	Director	Incumbent	Male	55	3/2010	3/2013	32,760	—	—	32,760		10.0	Yes
8	Shi Lirong	Director and President	Incumbent	Male	48	3/2010	3/2013	360,511	50,000	—	410,511	Note 3	91.5	No
9	Yin Yimin	Director	Incumbent	Male	49	3/2010	3/2013	632,833	—	—	632,833		77.1	No
10	He Shiyong	Director and Executive Vice President	Incumbent	Male	46	3/2010	3/2013	344,940	—	—	344,940		54.4	No
11	Qu Xiaohui	Independent Non-executive Director	Incumbent	Female	58	3/2010	3/2013	—	—	—	—		13.0	No
12	Wei Wei	Independent Non-executive Director	Incumbent	Male	47	3/2010	3/2013	—	—	—	—		13.0	No
13	Chen Naiwei	Independent Non-executive Director	Incumbent	Male	55	3/2010	3/2013	—	—	—	—		13.0	No
14	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	68	3/2010	3/2013	—	—	—	—		13.0	No
15	Timothy Alexander Steinert	Independent Non-executive Director	Incumbent	Male	52	6/2010	3/2013	—	—	—	—		13.0	No
<b>Supervisors of the Company</b>														
16	Zhang Taifeng	Chairman of Supervisory Committee	Incumbent	Male	71	3/2010	3/2013	398,625	102,800	—	501,425	Note 3	33.0	No
17	He Xuemei	Supervisor	Incumbent	Female	42	3/2010	3/2013	30,347	50,000	—	80,347	Note 3	26.8	No
18	Zhou Huidong	Supervisor	Incumbent	Male	36	6/2010	3/2013	78,158	—	—	78,158		31.9	No
19	Wang Yan	Supervisor	Incumbent	Female	47	3/2010	3/2013	—	—	—	—		—	No
20	Xu Weiyang	Supervisor	Incumbent	Female	50	3/2010	3/2013	9,199	—	—	9,199		36.0	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 (shares)	Reason for the change	Total payable remuneration received from the Company at the end of the reporting period (RMB in ten thousands)	Whether remuneration is received from shareholder entities
<b>Senior management of the Company</b>														
21	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	50	3/2010	3/2013	387,421	50,000	—	437,421	Note 3	52.9	No
22	Xie Daxiong <i>Note 2</i>	Executive Vice President	Resigned	Male	49	3/2010	1/2013	498,492	—	—	498,492		52.8	No
23	Tian Wenguo	Executive Vice President	Incumbent	Male	43	3/2010	3/2013	363,979	—	90,810	273,169	Note 3	52.8	No
24	Qiu Weizhao	Executive Vice President	Incumbent	Male	49	3/2010	3/2013	411,600	35,000	—	446,600	Note 3	51.0	No
25	Fang Qingfeng	Executive Vice President	Incumbent	Male	44	3/2010	3/2013	562,500	—	—	562,500		53.1	No
26	Chen Jie	Senior Vice President	Incumbent	Female	54	3/2010	3/2013	744,583	50,000	—	794,583	Note 3	91.3	No
27	Zhao Xianming	Senior Vice President	Incumbent	Male	46	3/2010	3/2013	431,873	—	—	431,873		49.2	No
28	Pang Shengqing	Senior Vice President	Incumbent	Male	44	3/2010	3/2013	521,402	—	—	521,402		49.2	No
29	Zeng Xuezhong	Senior Vice President	Incumbent	Male	39	3/2010	3/2013	567,600	—	—	567,600		49.2	No
30	Xu Huijun	Senior Vice President	Incumbent	Male	39	3/2010	3/2013	510,945	50,000	—	560,945	Note 3	50.0	No
31	Ye Weimin	Senior Vice President	Incumbent	Male	46	3/2010	3/2013	516,331	—	—	516,331		44.7	No
32	Ni Qin <i>Note 2</i>	Senior Vice President	Resigned	Male	53	3/2010	1/2013	710,560	20,000	—	730,560	Note 3	45.3	No
33	Wu Zengqi <i>Note 2</i>	Senior Vice President	Resigned	Male	48	3/2010	1/2013	486,570	—	—	486,570		49.8	No
34	Zhu Jinyun	Senior Vice President	Incumbent	Male	40	3/2010	3/2013	482,460	—	—	482,460		56.3	No
35	Zhang Renjun	Senior Vice President	Incumbent	Male	43	3/2010	3/2013	—	—	—	—		62.6	No
36	Wang Jiaran <i>Note 2</i>	Senior Vice President	Resigned	Male	43	3/2012	1/2013	51,107	100,000	—	151,107	Note 3	36.7	No
37	Chen Jianzhou	Senior Vice President	Incumbent	Male	42	3/2012	3/2013	49,828	80,200	—	130,028	Note 3	42.4	No
38	Feng Jianxiong	Secretary to the Board of Directors	Incumbent	Male	38	3/2010	3/2013	315,000	—	40,000	275,000	Note 3	37.9	No
Total								<u>10,752,616</u>	<u>698,000</u>	<u>130,810</u>	<u>11,319,806</u>		<u>1,424.8</u>	

*Note 1:* Mr. Lei Fanpei resigned as Non-executive Director, Vice Chairman of the Fifth Session of the Board of Directors and member of the Remuneration and Evaluation Committee under the Board of Directors of the Company on 9 February 2012.

*Note 2:* At the Thirty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 14 January 2013, it was approved that the Company would discontinue the employment of Mr. Xie Daxiong as Executive Vice Presidents of the Company and of Mr. Ni Qin, Mr. Wu Zengqi and Mr. Wang Jiaran as Senior Vice Presidents of the Company.

*Note 3:* Reduction or increase 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 4:* 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.

## 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 2012 are set out in the section of this annual report summary and result announcement headed “5.1 Changes in the shareholdings of the Company’s Directors, Supervisors and senior management and annual remuneration.”

Save as disclosed above, as at 31 December 2012, 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 2012, 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 Discussion and Analysis of overall operations during the reporting period**

#### ***6.1.1. Overview of the domestic telecommunications industry for 2012***

There was a slowdown in equipment investment by the domestic telecommunications industry in 2012, while industry players were focused on scale expansion of 3G development, the Broadband China strategy and the construction of supporting transmission facilities, the development of the 4G industry chain and strategic new sectors such as Cloud Computing and the Internet of Things.

#### ***6.1.2. Overview of the global telecommunications industry for 2012***

There was a slowdown in investments in equipment by the global telecommunications industry in 2012, although performances varied from region to region. With the gradual phasing-out of 2G networks, ongoing optimisation and upgrade of 3G networks, the issue of 4G licences and a few commercial deployments, consumers’ demand for smart phones continued to grow and so did the amount of data flow through carriers’ networks. Subsequent efforts of carriers to identify effective means to lower unit costs for data flow have in turn driven the roll-out of 4G networks. In connection with the wireline network, the construction of high-speed broadband access networks around the world continued to advance, such that the increase in data flow over wireless networks combined with the acceleration of broadband access has started the construction of transmission networks.

#### ***6.1.3. Operating Results of the Group for 2012***

As competition in the global telecommunications industry conducted itself in a more rational manner in 2012, the Group focused on populous nations and mainstream carriers in its business development and operation, with vigorous plans to tap the government and enterprise and services sectors. However, owing to the combined effects of, among others, postponed execution of certain systems contracts and decrease in revenue from terminals in the domestic market, and delayed progress of certain international projects, we experienced a decline in overall operating revenue as compared to 2011. Meanwhile, the Group’s net profit attributable to shareholders of the listed company decreased by a relatively significant margin, reflecting a decline in overall gross profit margin as compared to 2011, as the results of a larger number of low-margin contracts in Africa, South America, Asia and the domestic market recognized for 2012. The Group’s operating revenue for 2012 amounted to RMB84.22 billion, representing a year-on-year decline of 2.4%, while net profit attributable to shareholders of the listed company decreased 237.9% to RMB-2.84 billion. Basic earnings per share amounted to RMB-0.83.



## 1) *By market*

### The domestic market

For the year under review, the Group reported operating revenue of RMB39.56 billion from the domestic market, accounting for 47.0% of the Group's overall operating revenue. The Group worked in close tandem with the technological choices and network construction plans of carriers to capitalise on opportunities in the domestic market presented by large-scale 3G construction, the start of the construction of 4G commercial experimental networks and the Broadband China strategy, while consolidating its market shares through enhancements of its product competitiveness and the introduction of new technologies and new products, etc.

### The international market

For the year under review, the Group reported operating revenue of RMB44.66 billion from the international market, accounting for 53.0% 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 to enhance the capabilities for long-term sustainable development. Meanwhile, the Group was also vigorously establishing its presence in the market for government and enterprise networks, leveraging opportunities presented by in-depth development in informatisation by the government and enterprise customers.

## 2) *By product*

For the year under review, the Group reported operating revenue of RMB41.60 billion for carriers' networks. Operating revenue for terminals amounted to RMB25.84 billion. Operating revenue for telecommunication software systems, services and other products amounted to RMB16.78 billion.

### Carriers' networks

In connection with wireless products, the Group reinforced strategic cooperation with its existing customers on traditional 2G/3G products such as GSM/UMTS/CDMA, etc, while vigorously exploring new market niches. In respect of commercial construction relating to 4G products, we continued to enhance partnerships with mainstream global carriers on all fronts through FDD-LTE products, while maintaining our global leadership in TD-LTE products, for which commercial contracts were secured in India, the Middle East and Japan, etc. Against intense competition in the global marketplace, the Group strengthened its in-depth operation of wireless products and achieved sustainable development for wireless products, while assuring compliance with network performance benchmarks and delivery schedules.

In connection with wireline and optical communications products, although there was a decline in revenue from wireline switch and access products, the Group reported stable growth in optical communications products by continuing to invest in the research and development of new technologies and actively matching its solutions with carriers' network construction, amid a rapidly developing broadband market and the construction of supporting facilities for the Mobile Internet.

In terms of the service products, the Group also reported positive development by enhancing innovation of new products based on users' experience and requirements.

## Terminals

While operating revenue from terminal products decreased in line with weaker market demand for feature phones and data cards, the Group continued to sustain rapid growth in the operating revenue of smart terminals for the year under review, as market demand for smart terminals continued to increase in line with the development of the Mobile Internet and the growing variety of mobile applications, with smart terminals accounting for an increasing percentage of the Group's revenue of terminals giving rise to a more reasonable product mix, a more balanced market distribution and more diversified sales channels.

## Telecommunications software systems, services and other products

For the year under review, operating revenue from the Group's telecommunications software systems, services and other products reported year-on-year growth of 31.1%, with relatively rapid revenue growth in the video and network terminal products and other products.

### 6.2 Breakdown of indicators by industry, product and region segments for the year as compared to the previous year (In accordance with PRC ASBEs)

*Unit: RMB in millions*

Revenue mix	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
<b>I. By industry</b>						
Manufacturing of communication equipment	84,219.4	64,091.5	23.90%	(2.36%)	6.54%	(6.36)
<b>Total</b>	<b>84,219.4</b>	<b>64,091.5</b>	<b>23.90%</b>	<b>(2.36%)</b>	<b>6.54%</b>	<b>(6.36)</b>
<b>II. By product</b>						
Carriers' networks	41,602.7	29,677.1	28.67%	(10.57%)	4.84%	(10.49)
Terminals	25,838.8	21,498.7	16.80%	(4.06%)	(5.89%)	1.62
Telecommunication software systems, services and other products	16,777.9	12,915.7	23.02%	31.09%	43.38%	(6.60)
<b>Total</b>	<b>84,219.4</b>	<b>64,091.5</b>	<b>23.90%</b>	<b>(2.36%)</b>	<b>6.54%</b>	<b>(6.36)</b>
<b>III. By region</b>						
The PRC	39,556.1	29,051.4	26.56%	0.15%	10.58%	(6.92)
Asia (excluding the PRC)	16,062.7	12,765.6	20.53%	2.75%	10.16%	(5.34)
Africa	7,820.6	5,508.7	29.56%	(26.76%)	(3.28%)	(17.10)
Europe, Americas and Oceania	20,780.0	16,765.8	19.32%	1.63%	0.99%	0.51
<b>Total</b>	<b>84,219.4</b>	<b>64,091.5</b>	<b>23.90%</b>	<b>(2.36%)</b>	<b>6.54%</b>	<b>(6.36)</b>

The Group reported RMB84,219.4 million in operating revenue for 2012, dropping 2.36% as compared with last year. Operating revenue generated from the domestic business amounted to RMB39,556.1 million, which was stable compared with last year, while there was a decline in operating revenue generated from the international business, decreasing by 4.48% to RMB44,663.3



million. Analysed by product segment, year-on-year decline was reported for carriers' networks and terminals, while growth was reported for telecommunications software systems, services and other products.

The decrease in revenue from the Group's carriers' networks for 2012 reflected mainly the decrease in revenue generated from domestic wireline switch and access products, international CDMA systems equipment and international optical communications systems. The decrease in revenue from the Group's terminals for 2012 reflected mainly the general decrease in revenue generated from GSM handsets in the international markets and data cards. The increase in revenue from and costs of the Group's telecommunication software systems, services and other products for 2012 was mainly driven by the notable growth in revenue from and costs of video and network terminals in the domestic market.

### 6.3 Reasons for substantial changes in the Group's principal business and its structure, profit mix and profitability during the year (in accordance with PRC ASBEs)

- (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:

Item	As a percentage of total profit		Year-on-year increase/decrease (percentage points)
	2012	2011	
Operating profit	<b>252.23%</b>	16.30%	235.93% <sup>Note 1</sup>
Expenses for the period	<b>(1,241.55%)</b>	919.64%	(2,161.19) <sup>Note 1</sup>
Investment gains	<b>(63.48%)</b>	40.40%	(103.88) <sup>Note 1</sup>
Non-operating income and expenses, net	<b>(152.23%)</b>	83.70%	(235.93) <sup>Note 2</sup>

*Note 1:* Attributable mainly to the decrease in gross profit margin with negative total profit;

*Note 2:* Attributable mainly to the increase in software product VAT rebate and the decrease in gross profit margin with negative total profit;

- (3) The Group's overall gross profit margin decreased by 6.36 percentage points as compared to the previous year due to a larger number of low-margin contracts in certain regions recognized for the year.

#### 6.4. Management 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>Comprehensive Income Statement</b>	<b>2012</b>	<b>2011</b>
Operating revenue:		
Carriers' networks	41,602.7	46,522.1
Terminals	25,838.8	26,933.5
Telecommunication software systems, services and other products	<u>16,777.9</u>	<u>12,798.9</u>
Total revenue	84,219.4	86,254.5
Cost of sales	<u>(65,545.5)</u>	<u>(62,086.4)</u>
Gross profit	18,673.9	24,168.1
Other income and gains	4,508.7	3,664.4
Research and development costs	(8,829.2)	(8,492.6)
Selling and distribution costs	(11,340.9)	(11,112.2)
Administrative expenses	(2,449.2)	(2,605.6)
Other expenses	<u>(706.1)</u>	<u>(1,684.1)</u>
Profit from operating activities	(142.8)	3,938.0
Finance costs	(1,888.5)	(1,374.2)
Share of profit and loss of jointly controlled entities and associates	<u>48.1</u>	<u>71.3</u>
<b>Profit before tax</b>	(1,983.2)	2,635.1
Tax	<u>(621.4)</u>	<u>(392.0)</u>
<b>Net profit</b>	(2,604.6)	2,243.1
Attributable to:		
Minority interests	<u>(236.3)</u>	<u>(182.9)</u>
Attributable to:		
Shareholders of parent company	<u>(2,840.9)</u>	<u>2,060.2</u>
<b>Other comprehensive income</b>	758.4	(350.2)
<b>Comprehensive income</b>	(1,846.2)	1,892.9
<b>Dividend</b>	<u>—</u>	<u>686.2</u>
<b>Earnings per share — Basic</b>	<u>RMB(0.83)</u>	<u>RMB0.61</u>
— Diluted	<u>RMB(0.83)</u>	<u>RMB0.61</u>

## 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	2012		2011	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	41,602.7	49.4%	46,522.1	53.9%
Terminals	25,838.8	30.7%	26,933.5	31.3%
Telecommunication software systems, services and other products	16,777.9	19.9%	12,798.9	14.8%
<b>Total</b>	<b>84,219.4</b>	<b>100.0%</b>	<b>86,254.5</b>	<b>100.0%</b>

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

*Unit: RMB in millions*

Region	2012		2011	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	39,556.1	47.0%	39,496.6	45.8%
Asia (excluding the PRC)	16,062.7	19.0%	15,633.4	18.1%
Africa	7,820.6	9.3%	10,677.5	12.4%
Europe, the Americas and Oceania	20,780.0	24.7%	20,447.0	23.7%
<b>Total</b>	<b>84,219.4</b>	<b>100.0%</b>	<b>86,254.5</b>	<b>100.0%</b>

The Group reported RMB84,219.4 million in operating revenue for 2012, dropping 2.4% as compared with last year. Operating revenue generated from the domestic business amounted to RMB39,556.1 million, which was stable compared with last year, while there was a decline in operating revenue generated from the international business, decreasing by 4.5% to RMB44,663.3 million. Analysed by product segment, year-on-year decline was reported for carriers' networks and terminals, while growth was reported for telecommunications software systems, services and other products.

The decrease in revenue from the Group's carriers' networks for 2012 reflected mainly the decrease in revenue generated from domestic wireline switch and access products, international CDMA systems equipment and international optical communications systems.

The decrease in revenue from the Group's terminals for 2012 reflected mainly the general decrease in revenue generated from GSM handsets and data cards in the international markets.

The increase in revenue from the Group's telecommunication software systems, services and other products for 2012 was mainly driven by the notable growth in revenue from video and network terminals in the domestic market.

#### *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	2012		2011	
	Cost of sales	As a percentage of product segment revenue	Cost of sales	As a percentage of product segment revenue
Carriers' networks	30,564.8	73.5%	29,802.1	64.1%
Terminals	21,549.1	83.4%	22,886.1	85.0%
Telecommunication software systems, services and other products	13,431.6	80.1%	9,398.2	73.4%
<b>Total</b>	<b>65,545.5</b>	<b>77.8%</b>	<b>62,086.4</b>	<b>72.0%</b>

*Unit: RMB in millions*

Product segment	2012		2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	11,037.9	26.5%	16,720.0	35.9%
Terminals	4,289.7	16.6%	4,047.4	15.0%
Telecommunication software systems, services and other products	3,346.3	19.9%	3,400.7	26.6%
<b>Total</b>	<b>18,673.9</b>	<b>22.2%</b>	<b>24,168.1</b>	<b>28.0%</b>

Cost of sales of the Group for 2012 increased 5.6% as compared to last year to RMB65,545.5 million. The Group's overall gross profit margin of 22.2% was 5.8 percentage points lower as compared to last year, reflecting mainly lower gross profit margin for carriers' networks and telecommunications software systems, services and other products.

Cost of sales of the Group's carriers' networks for 2012 amounted to RMB30,564.8 million, a 2.6% increase compared to last year. The relevant gross profit margin was 26.5% versus 35.9% for last year. The decrease in gross profit margin of carriers' networks mainly reflected the decline of gross profit margin for optical communications systems, wireline switch and access systems and CDMA systems equipment.

Cost of sales of the Group's terminals for 2012 amounted to RMB21,549.1 million, a decline of 5.8% compared to last year. The relevant gross profit margin was 16.6% versus 15.0% for last year. The increase in gross profit margin for terminals reflected mainly the increase in revenue from smart terminals that commanded a higher gross profit margin as a percentage of total revenue.

Cost of sales of the Group's telecommunication software systems, services and other products for 2012 amounted to RMB13,431.6 million, increasing by 42.9% compared to last year. The relevant gross profit margin was 19.9%, compared to 26.6% for last year. The decline in gross profit margin was mainly attributable to lower gross profit margin reported for service products as a result of increased costs for human resources.

#### *Other Income And Gains*

Other income and gains of the Group for 2012 amounted to RMB4,508.7 million, representing a 23.0% growth compared to RMB3,664.4 million for 2011. The increase reflected mainly to the increase of rebates of software products VAT.

#### *Research and Development Costs*

The Group's research and development costs for 2012 increased by 4.0% to RMB8,829.2 million from RMB8,492.6 million for 2011, and slightly from 9.8% for 2011 to 10.5% for 2012 as a percentage of operating revenue, reflecting mainly increased investments by the Group in the research and development of LTE wireless systems, service products and core networks, etc.

#### *Selling and Distribution Costs*

The Group's selling and distribution costs for 2012 increased by 2.1% to RMB11,340.9 million from RMB11,112.2 million for 2011, and from 12.9% for 2011 to 13.5% for 2012 as a percentage of operating revenue, as the Group increased its investments in overseas market.

#### *Administrative Expenses*

Administrative expenses of the Group for 2012 decreased by 6.0% to RMB2,449.2 million, as compared to RMB2,605.6 million for 2011, or from 3.0% for 2011 to 2.9% for 2012 as a percentage of operating revenue. The decrease was mainly attributable to the Group's strengthened efforts in cost control.

#### *Other Expenses*

Other expenses of the Group for 2012 decreased by 58.1% to RMB706.1 million, as compared to RMB1,684.1 million for 2011. The decrease was reflected mainly the reduction in exchange losses and the reduction in bad debt provisions for trade receivables in the period.

### *Profit From Operating Activities*

The Group's profit from operating activities for 2012 decreased by 103.6% to RMB-142.8 million, as compared to RMB3,938.0 million for 2011, while the operating profit margin decreased from 4.6% for 2011 to -0.2% for 2012, primarily as a result of lower overall gross profit margin of the Group.

### *Finance Costs*

Finance costs of the Group for 2012 increased by 37.4% to RMB1,888.5 million compared to RMB1,374.2 million for 2011, reflecting mainly the decrease in cash turnover rate and the increase in loans of operating funds.

### *Tax*

The Group's income tax expense for 2012 was RMB621.4 million, which was 58.5% higher as compared to RMB392.0 million for 2011, which mainly reflected the increase in profit for certain subsidiaries of the Group and the year-on-year decrease in deferred income tax assets derived from deductible losses, such that the effective tax rate for 2012 rose to 31.3% from 14.9% for 2011.

### *Profit Attributable To Minority Interests*

The Group's minority interests for 2012 amounted to RMB236.3 million, which was 29.2% higher as compared to RMB182.9 million for 2011, mainly attributable to the deconsolidation for the current year of a subsidiary that incurred minority losses of RMB50.0 million in the previous year.

### *Other Comprehensive Income*

Other comprehensive income of the Group for 2012 increased by 316.6% to RMB758.4 million, compared to RMB-350.2 million for 2011, mainly reflecting the appreciation of certain properties following revaluation upon reclassification from properties for self-occupation to investment properties.

### *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 minority interests). The Group's debt-equity ratio for 2012 was 62.5%, increasing by 8.7 percentage points as compared to 53.8% for 2011. The increase was mainly attributable to the increase in the Group's bank loans to replenish working capital.

## *Liquidity and Capital Resources*

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 2012 amounted to RMB22,659.6 million.

### *Cash Flow Data*

	Unit: RMB in millions	
	2012	2011
Net cash inflow/(outflow) from operating activities	1,873.1	(3,655.3)
Net cash outflow from investing activities	(4,376.8)	(3,610.1)
Net cash inflow from financing activities	4,536.6	13,434.9
Net increase in cash and cash equivalents	2,032.9	6,169.5
Cash and cash equivalents at year-end	22,659.6	20,662.1

### *Operating Activities*

The Group had a net cash inflow from operating activities of RMB1,873.1 million for 2012 compared to net cash outflow of RMB3,655.3 million for 2011, mainly reflecting year-on-year increase of cash received from sales of goods and services by RMB6,334.7 million, increase of tax rebates received by RMB1,273.0 million, increase of cash payments for purchases of goods and services by RMB5,051.8 million, decrease of cash payments to and on behalf of employees by RMB396.0 million, and increase of tax payments by RMB995.9 million.

### *Investing Activities*

The Group's net cash outflow from investing activities was RMB4,376.8 million for 2012 and RMB3,610.1 million for 2011. Cash outflow comprised mainly cash payment of RMB1,257.6 million for the purchase of property, plant and equipment and cash payment of RMB1,120.0 million for the acquisition of intangible assets and land lease payments.

### *Financing Activities*

The Group's net cash inflow from financing activities for 2012 was RMB4,536.6 million, compared to RMB13,434.9 million for 2011, reflecting mainly the Group's repayment of due loans.



### *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>2012</b>	<b>2011</b>
Purchases of fixed assets and increase of construction in progress payments	<b>1,257.6</b>	2,548.5

The Group's capital expenditure for 2012 amounting to RMB1,257.6 million was mainly used for the completion of construction work at Xi'an Research and Development Centre, Shenzhen Hi-tech Industrial Park R&D Centre and Heyuan Production and R&D Training Base, equipment installation project and purchase of machinery and equipment, etc.

### *Indebtedness*

*Unit: RMB in millions*

<b>Item</b>	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Secured bank loans	<b>1,805.0</b>	2,355.2
Unsecured bank loans	<b>17,614.9</b>	16,461.9

*Unit: RMB in millions*

<b>Item</b>	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Short-term bank loans	<b>18,429.9</b>	11,876.4
Long-term bank loans	<b>990.0</b>	6,940.7

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 Group's bank loans in 2012 increased by RMB602.8 million over last year and were mainly applied to provide additional working capital. The reasons for the change in the structure of the long- and short-term debts are set out in Note 34 to the financial statements prepared under HKFRSs in the Annual Report.



## Contractual Obligations

Unit: RMB in millions

Item	As at 31 December 2012			
	Total	Less than 1 year	2–5 years	More than 5 years
Bank loans	19,419.9	18,429.9	990.0	—
Operating lease obligation	1,424.0	432.4	877.5	114.1

## Contingent Liabilities

Unit: RMB in millions

Item	As at 31 December	
	2012	2011
Guarantees given to banks in connection with borrowings to customers	65.2	65.2
Guarantees given to banks in respect of performance bonds	7,814.8	9,752.6
Total	7,880.0	9,817.8

## Capital Commitments

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

Unit: RMB in millions

Item	As at 31 December	
	2012	2011
Land and buildings: Contracted, but not provided for	484.4	837.0
Investment in associates: Contracted, but not provided for	41.7	0.9
Land and buildings: Authorised, but not contracted	21,600.4	21,752.0

## Details of the Subsidiaries, Jointly-Controlled Entities and Associates of the Group

Details of the subsidiaries, jointly-controlled entities and associates of the Group as at 31 December 2012 are set out in notes 20, 21 and 22 to the financial statements prepared in accordance with HKFRSs

## Material Acquisitions and Disposals Related to Subsidiaries and Associates

Details of material acquisitions and disposals related to subsidiaries of the Group in 2012 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” in the Annual Report.

### *Employees*

Details of the number of employees, training programmes, remuneration, remuneration policy and bonus of the Group as at 31 December 2012 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees” and “Corporate Governance Structure” in the Annual Report.

### *Charges On Assets*

Details of the Group’s charges on assets as at 31 December 2012 are set out in note 34 to the financial statements prepared under HKFRSs.

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

Details of the Group’s material investments and their performance and prospects as at 31 December 2012 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 6.7.2 in this annual report summary and results announcement.

## **6.5 Proposal for profit distribution or capitalisation of capital reserve for 2012**

In view of the actual operating conditions of the Company, no profit distribution or capitalisation of capital reserve for 2012 has been proposed. The aforesaid matter shall require consideration and approval at the general meeting.

## **6.6 Purchase, sale and redemption of shares**

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

## **6.7 Business outlook for 2013 and risk exposures**

### **6.7.1. Business outlook for 2013**

In 2013, in connection with wireless networks, the rapid development of the Mobile Internet will drive the optimisation and upgrade of 3G networks and the commercial deployment of 4G networks. In connection with wireline networks, broadband markets around the world in varied stages of development are enjoying thriving development to fulfil the services requirements of users. Policies relating to the broadband strategy adopted by various countries will continue to drive broadband construction, while increased data flow over wireless and wireline networks will present development opportunities for transmission networks. Meanwhile, smart terminals will remain in the fast track for development given the continuous penetration of the Mobile Internet

and the growing variety of mobile applications. Moreover, the ability to provide integrated solutions and forge stable, long-term partnerships will be crucial given changing requirements of major carriers. In this regard, the Group has started cooperation with mainstream international carriers on all fronts on the back of its globally competitive product solutions.

In 2013, the Group will make dedicated efforts in product innovation and solution operations with an emphasis on mainstream products, while endeavouring to enhance its R&D efficiency, implement in greater depth the strategy on populous nations and mainstream carriers, focus on markets in which it claims dominance, and vigorously develop business in the government enterprise and services sectors. In 2013, the Group will adopt the operations settlement system to facilitate resource management and control, so as to refine cost management and enhance operating efficiency,

### **6.7.2. 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.

#### *(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. Our research and development team is currently supported by approximately 29,000 employees. While the Group has adopted stringent measures to protect its intellectual property rights, potential conflicts in intellectual property rights between the Company and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group cannot be ruled out.

#### *(3) Foreign exchange risk*

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. Exchange rate volatility has recently escalated under the impact of the international economic situation. With a strong emphasis on the research of exchange risk management policies, models and strategies, the Group sought to mitigate the impact of exchange rate volatility on its operations by lowering its net exposure to foreign exchange through the use of measures such as the business planning method, asset and liability method, internal exchange settlement and net exposure foreign exchange value protection, etc based on the principle of exposure management.

#### *(4) Interest rate risk*

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

(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 and credit granting management system to mitigate the aforesaid impact.

## **7. CORPORATE GOVERNANCE REPORT**

The Company had fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January to 31 March 2012 and all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the amended Hong Kong Listing Rules during the period from 1 April to 31 December 2012.

The Directors of the Company confirmed that the Company has adopted the Model Code. Upon due enquiry with all Directors and Supervisors, the Company is not aware of any information that reasonably indicate non-compliance with code provisions set out in the Model Code by consulting Director or Supervisor 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 2012 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2012 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended 31 December 2012 prepared in accordance with HKFRSs.

### **8.2 Audit Opinion**

The consolidated and company balance sheets as at 31 December 2012, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2012 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 (2013) 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 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2012 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 Accounting statements prepared in accordance with PRC ASBEs and notes thereto (Please see Appendix I)*

*8.3.2 Accounting statements prepared in accordance with HKFRSs (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

**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 2012, the Group established the following new subsidiaries: tier-one subsidiaries including ZTE Anhui Media CO. LTD and ZTE Trunking Technology Corp.; tier-two subsidiaries including Changsha Zhongxing Software Company Limited, Artvision Technologies Inc., UAB ZTE LITHUANIA, ZTE COLOMBIA S.A.S, ZTE RDC S.P.R.L, ZTE INTERNATIONAL LIMITED, ZTESOFT SINGAPORE TECHNOLOGY PTE. LTD., ZHONGXING TELECOM SERVICE LIMITED, SHENZHEN BTRAVEL SERVICE CO., LTD, ZTE Energy Conservation Services Co., Ltd., ZTE KYRGYZSTAN Limited Liability Company, ZTE CORPORATION DE GUATEMALA, S.A., 克拉瑪依中興石油科技有限公司, 寧波中興智慧城市研究院有限公司, ZTEICT QINHUANGDAO TECHNOLOGY CO., LTD, 南京守護寶信息技術有限公司; and tier-three subsidiaries including Nanjing ZTE Welink Technology Co., LTD, Hengyang Zhongxing ICT CO., LTD, ZTEJC NIGERIA LIMITED, NETEX DE VENEZUELA, C.A., ZTE Services Deutschland GmbH and SINOABYSSINIA INFORMATION ENGINEERING TECHNOLOGY P.L.C.

The Company entered into an equity transfer agreement with Zhongxing Development to dispose of 82% equity interests in Zhongxing Hetai held by the Company. The date of equity interest disposal was 30 June 2012 and Zhongxing Hetai was deconsolidated from the Group as from 30 June 2012.

The Company entered into the "Equity Transfer Agreement on the Transfer of 68% Equity Interests in Shenzhen ZTE Special Equipment Company Limited" with 10 investors including Shenzhen Capital Group Co.,Ltd (深圳市創新投資集團有限公司), Guandong Hongtu Venture Capital Management Co., Ltd. (廣東紅土創業投資有限公司) and Nanjing Hongtu Venture Capital Management Co., Ltd. (南京紅土創業投資有限公司), pursuant to which the Company disposed of its 68% equity interests in ZTE Special Equipment. The date of equity interest disposal was 30 September 2012 and ZTE Special Equipment was deconsolidated from the Group as from 30 September 2012.

The Company entered into the “Equity Transfer Agreement for the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited” and “Equity Transfer Agreement for the Transfer of 51% Equity Interests in Shenzhen Changfei Investment Company Limited” with CCBI and Guangdong All Access, respectively, pursuant to which the Company disposed of 81% equity interests in Changfei. The date of equity interest disposal was 26 December 2012 and Changfei Equipment was deconsolidated from the Group as from 26 December 2012.

**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, PRC  
27 March 2013

*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 Timothy Alexander Steinert.*

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

**CONSOLIDATED BALANCE SHEET (AUDITED)**

*(All amounts in RMB'000 unless otherwise stated)*

<b>Assets</b>	<b>2012</b>	2011
<b>Current assets</b>		
Cash	24,126,423	21,471,967
Trading financial assets	106,297	95,618
Bills receivable	4,282,220	3,223,529
Trade receivables	22,068,176	23,873,425
Factored trade receivables	4,165,514	3,623,096
Other receivables	2,019,341	2,118,700
Prepayments	742,551	494,200
Inventories	11,442,389	14,988,379
Amount due from customers for contract works	13,666,100	14,588,455
<b>Total current assets</b>	<b>82,619,011</b>	84,477,369
<b>Non-current assets</b>		
Available-for-sale financial assets	1,092,335	819,972
Long-term trade receivables	1,206,642	864,274
Factored long-term trade receivables	4,018,484	4,156,083
Long-term equity investments	455,768	514,091
Investment properties	1,686,158	—
Fixed assets	7,096,624	7,003,824
Construction in progress	824,387	1,580,462
Intangible assets	1,087,038	1,194,946
Deferred development costs	2,446,934	1,925,610
Deferred tax assets	1,218,605	1,128,836
Long-term deferred assets	90,017	61,741
Other non-current assets	3,604,303	1,640,906
<b>Total non-current assets</b>	<b>24,827,295</b>	20,890,745
<b>TOTAL ASSETS</b>	<b>107,446,306</b>	105,368,114



## CONSOLIDATED BALANCE SHEET (AUDITED) (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

Liabilities and shareholders' equity	2012	2011
<b>Current liabilities</b>		
Short-term loans	17,923,607	11,183,349
Bank advances on factored trade receivables	4,168,932	3,789,731
Derivative financial liabilities	105,739	5,305
Bills payable	11,478,102	11,149,367
Trade payables	18,115,877	21,542,885
Amount due to customers for contract works	3,459,545	3,068,804
Advances from customers	3,106,638	2,458,428
Salary and welfare payables	2,346,526	2,409,032
Taxes payable	(1,161,974)	(990,041)
Dividends payable	205,783	170,046
Other payables	8,127,193	7,526,477
Deferred income	267,082	74,986
Provisions	291,457	393,343
Long-term loans due within one year	4,524,420	693,099
<b>Total current liabilities</b>	<b>72,958,927</b>	<b>63,474,811</b>
<b>Non-current liabilities</b>		
Long-term loans	989,990	6,940,702
Bank advances on factored long-term trade receivables	4,018,484	4,156,083
Bonds payable	6,107,993	3,884,198
Deferred tax liabilities	139,900	—
Other non-current liabilities	592,282	623,545
<b>Total non-current liabilities</b>	<b>11,848,649</b>	<b>15,604,528</b>
<b>Total liabilities</b>	<b>84,807,576</b>	<b>79,079,339</b>
<b>Shareholders' equity</b>		
Share capital	3,440,078	3,440,078
Capital reserves	9,352,643	8,539,807
Restricted shares subject to lock-up	—	(40,537)
Surplus reserves	1,587,430	1,587,891
Retained profits	7,705,022	10,545,984
Proposed final dividends	—	686,190
Foreign currency translation differences	(582,699)	(527,696)
Total equity attributable to equity holders of the parent	21,502,474	24,231,717
Minority interests	1,136,256	2,057,058
<b>Total shareholders' equity</b>	<b>22,638,730</b>	<b>26,288,775</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>107,446,306</b>	<b>105,368,114</b>



## CONSOLIDATED INCOME STATEMENT (AUDITED)

(All amounts in RMB'000 unless otherwise stated)

	2012	2011
<b>Operating revenue</b>	<b>84,219,358</b>	86,254,456
Less: Operating costs	<b>64,091,546</b>	60,157,354
Taxes and surcharges	<b>1,191,951</b>	1,462,901
Selling and distribution costs	<b>11,180,633</b>	10,953,233
Administrative expenses	<b>2,281,472</b>	2,431,703
Research and development costs	<b>8,829,194</b>	8,492,623
Finance expenses	<b>2,331,164</b>	2,356,319
Impairment losses	<b>467,050</b>	946,687
Add: Losses from changes in fair values	<b>(107,396)</b>	(88,675)
Investment income	<b>1,258,886</b>	1,064,549
Including: Share of profits and losses of jointly-controlled entities and associates	<b>48,123</b>	71,305
<b>Operating profit/(loss)</b>	<b>(5,002,162)</b>	429,510
Add: Non-operating income	<b>3,081,253</b>	2,368,710
Less: Non-operating expenses	<b>62,291</b>	163,084
Including: Loss on disposal of non-current assets	<b>19,446</b>	30,629
<b>Total profit/(loss)</b>	<b>(1,983,200)</b>	2,635,136
Less: Income tax	<b>621,421</b>	392,043
<b>Net profit/(loss)</b>	<b>(2,604,621)</b>	2,243,093
Net profit/(loss) attributable to owners of the parent	<b>(2,840,962)</b>	2,060,166
Minority interests	<b>236,341</b>	182,927
<b>Earnings per share</b>		
Basic earnings per share	<b>RMB(0.83)</b>	RMB0.61
Diluted earnings per share	<b>RMB(0.83)</b>	RMB0.61
Other comprehensive income	<b>758,380</b>	(350,187)
<b>Total comprehensive income</b>	<b>(1,846,241)</b>	1,892,906
Including:		
Total comprehensive income attributable to owners of the parent	<b>(2,103,307)</b>	1,697,115
Total comprehensive income attributable to minority interests	<b>257,066</b>	195,791

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)

(All amounts in RMB'000 unless otherwise stated)

		2012									
		Equity attributable to equity holders of the parent									
		Share Capital	Capital Reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I.	Current year's opening balance	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
II.	Changes during the year										
	(1) Net profit/(loss)	—	—	—	—	(2,840,962)	—	—	(2,840,962)	236,341	(2,604,621)
	(2) Other comprehensive income	—	792,658	—	—	—	—	(55,003)	737,655	20,725	758,380
	Total comprehensive income	—	792,658	—	—	(2,840,962)	—	(55,003)	(2,103,307)	257,066	(1,846,241)
	(3) 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 minority interests	—	—	—	—	—	—	—	—	(576,637)	(576,637)
	(4) Profit appropriation										
	1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
	2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)	(225,873)	(912,063)
	3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—
	(5) 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	3,440,078	9,352,643	—	1,587,430	7,705,022	—	(582,699)	21,502,474	1,136,256	22,638,730

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED) (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

		2011									
		Equity attributable to equity holders of the parent									
		Share Capital	Capital Reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
<b>I.</b>	<b>Current year's opening balance</b>	2,866,732	9,070,975	(276,266)	1,537,512	9,222,387	841,297	(168,765)	23,093,872	1,868,126	24,961,998
<b>II.</b>	<b>Changes during the year</b>										
	(1) Net profit	—	—	—	—	2,060,166	—	—	2,060,166	182,927	2,243,093
	(2) Other comprehensive income	—	(4,120)	—	—	—	—	(358,931)	(363,051)	12,864	(350,187)
	<b>Total comprehensive income</b>	—	(4,120)	—	—	2,060,166	—	(358,931)	1,697,115	195,791	1,892,906
	(3) Shareholder's capital injection and capital reduction										
	1. Capital injection from shareholders	—	4,477	235,729	—	—	—	—	240,206	8,711	248,917
	2. Equity settled share expenses charged to equity	—	41,821	—	—	—	—	—	41,821	—	41,821
	3. Disposal of subsidiaries	—	—	—	—	—	—	—	—	95,703	95,703
	(4) Profit appropriation										
	1. Appropriation to surplus reserves	—	—	—	50,379	(50,379)	—	—	—	—	—
	2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)	(111,273)	(952,570)
	3. Proposed final dividends	—	—	—	—	(686,190)	686,190	—	—	—	—
	4. Others	—	—	—	—	—	—	—	—	—	—
	(5) Transfer of shareholders' equity										
	1. Transfer of capital reserve to share capital	573,346	(573,346)	—	—	—	—	—	—	—	—
	2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	—
	3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	—
<b>III.</b>	<b>Current year's closing balance</b>	<u>3,440,078</u>	<u>8,539,807</u>	<u>(40,537)</u>	<u>1,587,891</u>	<u>10,545,984</u>	<u>686,190</u>	<u>(527,696)</u>	<u>24,231,717</u>	<u>2,057,058</u>	<u>26,288,775</u>

## CONSOLIDATED CASH FLOW STATEMENT (AUDITED)

(All amounts in RMB'000 unless otherwise stated)

	2012	2011
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	87,302,343	80,967,660
Refunds of taxes	7,588,437	6,315,454
Cash received relating to other operating activities	600,738	1,507,637
<b>Sub-total of cash inflows</b>	<u>95,491,518</u>	<u>88,790,751</u>
Cash paid for goods and services	64,944,598	59,892,837
Cash paid to and on behalf of employees	13,022,924	13,418,931
Cash paid for all types of taxes	6,607,571	5,611,652
Cash paid relating to other operating activities	9,366,409	11,679,548
<b>Sub-total of cash outflows</b>	<u>93,941,502</u>	<u>90,602,968</u>
<b>Net cash flows from operating activities</b>	<u>1,550,016</u>	<u>(1,812,217)</u>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	1,344,548	1,944,838
Cash received from return on investments	35,817	204,503
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	41,845	90,615
Net cash received for the disposal of subsidiaries	989,185	51,410
<b>Sub-total of cash inflows</b>	<u>2,411,395</u>	<u>2,291,366</u>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	2,377,654	4,065,036
Cash paid for acquisition of investments	1,636,871	1,645,035
<b>Sub-total of cash outflows</b>	<u>4,014,525</u>	<u>5,710,071</u>
<b>Net cash flows from investing activities</b>	<u>(1,603,130)</u>	<u>(3,418,705)</u>

**CONSOLIDATED CASH FLOW STATEMENT (AUDITED) (CONTINUED)***(All amounts in RMB'000 unless otherwise stated)*

	<b>2012</b>	2011
<b>III. Cash flows from financing activities</b>		
Cash received from capital injection	<b>8,100</b>	7,137
Including: Capital injection into subsidiaries by minority shareholders	<b>8,100</b>	7,137
Cash received from borrowings	<b>45,539,644</b>	34,945,347
<b>Sub-total of cash inflows</b>	<b>45,547,744</b>	34,952,484
Cash repayments of borrowings	<b>40,920,499</b>	21,517,594
Cash payments for distribution of dividends, profits and for interest expenses	<b>2,541,275</b>	2,034,481
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	<b>102,558</b>	62,274
<b>Sub-total of cash outflows</b>	<b>43,461,774</b>	23,552,075
<b>Net cash flows from financing activities</b>	<b>2,085,970</b>	11,400,409
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<b>(35,310)</b>	(412,497)
<b>V. Net increase in cash and cash equivalents</b>	<b>1,997,546</b>	5,756,990
Add: cash and cash equivalents at beginning of year	<b>20,662,089</b>	14,905,099
<b>VI. Net balance of cash and cash equivalents</b>	<b>22,659,635</b>	20,662,089

**BALANCE SHEET (AUDITED)***(All amounts in RMB'000 unless otherwise stated)*

<b>Assets</b>	<b>2012</b>	<b>2011</b>
<b>Current assets</b>		
Cash	16,010,506	13,575,178
Trading financial assets	54,308	87,180
Bills receivable	3,762,831	2,992,133
Trade receivables	34,970,056	33,136,024
Factored trade receivables	3,545,295	3,306,558
Prepayments	44,783	22,969
Dividends receivable	6,242,066	3,696,751
Other receivables	4,551,048	3,477,706
Inventories	5,668,033	8,634,564
Amount due from customers for contract works	8,440,613	12,171,992
<b>Total current assets</b>	<b>83,289,539</b>	<b>81,101,055</b>
<b>Non-current assets</b>		
Available-for-sale financial assets	323,655	212,448
Long-term trade receivables	3,684,501	3,633,751
Factored long-term trade receivables	3,582,669	4,059,772
Long-term equity investments	6,492,492	4,750,471
Investment properties	1,381,593	—
Fixed assets	5,083,046	4,791,141
Construction in progress	54,714	739,549
Intangible assets	529,864	715,716
Deferred development costs	595,205	499,988
Deferred tax assets	581,507	622,619
Long-term deferred assets	57,993	30,096
Other non-current assets	3,374,559	1,489,944
<b>Total non-current assets</b>	<b>25,741,798</b>	<b>21,545,495</b>
<b>TOTAL ASSETS</b>	<b>109,031,337</b>	<b>102,646,550</b>

**BALANCE SHEET (AUDITED) (CONTINUED)***(All amounts in RMB'000 unless otherwise stated)*

<b>Liabilities and shareholders' equity</b>	<b>2012</b>	<b>2011</b>
<b>Current liabilities</b>		
Short-term loans	8,803,325	6,536,028
Trading financial liabilities	42,325	—
Bank advances on factored trade receivables	3,548,713	3,473,193
Bills payable	13,775,960	11,904,593
Trade payables	33,885,695	31,997,323
Amount due to customers for contract works	2,600,053	2,401,582
Advances from customers	1,765,544	1,608,213
Salary and welfare payables	569,587	720,866
Taxes payable	(1,309,327)	(1,628,377)
Dividends payable	152	128
Other payables	16,553,959	20,133,672
Deferred income	133,179	29,483
Provisions	159,693	241,134
Long-term loans due within one year	4,518,134	693,099
<b>Total current liabilities</b>	<b>85,046,992</b>	<b>78,110,937</b>
<b>Non-current liabilities</b>		
Long-term loans	—	1,130,090
Bank advances on factored long-term trade receivables	3,582,669	4,059,772
Bonds cum warrants	6,107,993	3,884,198
Deferred tax liabilities	138,400	—
Other non-current liabilities	592,282	622,297
<b>Total non-current liabilities</b>	<b>10,421,344</b>	<b>9,696,357</b>
<b>Total liabilities</b>	<b>95,468,336</b>	<b>87,807,294</b>
<b>Shareholders' equity</b>		
Share capital	3,440,078	3,440,078
Capital reserves	9,332,663	8,534,677
Restricted shares subject to lock-up	—	(40,537)
Surplus reserves	925,674	925,674
Retained profits	(118,276)	1,309,523
Proposed final dividends	—	686,190
Foreign currency translation differences	(17,138)	(16,349)
<b>Total shareholders' equity</b>	<b>13,563,001</b>	<b>14,839,256</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>109,031,337</b>	<b>102,646,550</b>

**INCOME STATEMENT (AUDITED)***(All amounts in RMB'000 unless otherwise stated)*

	<b>2012</b>	2011
<b>Operating revenue</b>	<b>74,032,317</b>	75,344,302
Less: Operating costs	<b>67,605,154</b>	66,202,307
Taxes and surcharges	<b>495,897</b>	467,247
Selling and distribution costs	<b>7,076,114</b>	7,703,206
Administrative expenses	<b>1,389,811</b>	1,530,847
Research and development costs	<b>2,470,098</b>	2,636,883
Finance expenses	<b>1,719,956</b>	1,431,951
Impairment losses	<b>(30,026)</b>	564,900
Add: Losses from changes in fair values	<b>(85,834)</b>	(34,799)
Investment income	<b>4,717,406</b>	5,248,295
Including: Share of profits and losses of jointly-controlled entities and associates	<b>16,007</b>	42,247
<b>Operating profit/(loss)</b>	<b>(2,063,115)</b>	20,457
Add: Non-operating income	<b>660,147</b>	419,854
Less: Non-operating expenses	<b>20,340</b>	119,701
Including: Loss on disposal of non-current assets	<b>9,326</b>	11,842
<b>Total profit/(loss)</b>	<b>(1,423,308)</b>	320,610
Less: Income tax	<b>4,491</b>	(183,183)
<b>Net profit/(loss)</b>	<b>(1,427,799)</b>	503,793
Other comprehensive income	<b>783,475</b>	(936)
<b>Total comprehensive income</b>	<b>(644,324)</b>	502,857



## STATEMENT OF CHANGES IN EQUITY (AUDITED)

(All amounts in RMB'000 unless otherwise stated)

	2012							Total shareholders' equity
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	
I. Current year's opening balance	3,440,078	8,534,677	(40,537)	925,674	1,309,523	686,190	(16,349)	14,839,256
II. Changes during the year								
(1) Net profit/(loss)	—	—	—	—	(1,427,799)	—	—	(1,427,799)
(2) Other comprehensive income	—	784,264	—	—	—	—	(789)	783,475
Total comprehensive income	—	784,264	—	—	(1,427,799)	—	(789)	(644,324)
(3) 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	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) 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	—	—	—	—	—	—	—	—
(6) Others	—	7,000	—	—	—	—	—	7,000
III. Current year's closing balance	<u>3,440,078</u>	<u>9,332,663</u>	<u>—</u>	<u>925,674</u>	<u>(118,276)</u>	<u>—</u>	<u>(17,138)</u>	<u>13,563,001</u>

## STATEMENT OF CHANGES IN EQUITY (AUDITED) (CONTINUED)

(All amounts in RMB'000 unless otherwise stated)

	2011							
	Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current year's opening balance	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146
II. Changes during the year								
(1) Net profit	—	—	—	—	503,793	—	—	503,793
(2) Other comprehensive income	—	—	—	—	—	—	(936)	(936)
Total comprehensive income	—	—	—	—	503,793	—	(936)	502,857
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	235,729	—	—	—	—	235,729
2. Equity settled share expenses charged to equity	—	41,821	—	—	—	—	—	41,821
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	50,379	(50,379)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)
3. Proposed final dividends	—	—	—	—	(686,190)	686,190	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	573,346	(573,346)	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—	—
III. Current year's closing balance	<u>3,440,078</u>	<u>8,534,677</u>	<u>(40,537)</u>	<u>925,674</u>	<u>1,309,523</u>	<u>686,190</u>	<u>(16,349)</u>	<u>14,839,256</u>

## CASH FLOW STATEMENT (AUDITED)

(All amounts in RMB'000 unless otherwise stated)

	2012	2011
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	71,226,674	72,514,920
Refunds of taxes	5,350,217	4,554,588
Cash received relating to other operating activities	371,771	4,116,964
<b>Sub-total of cash inflows</b>	<u>76,948,662</u>	<u>81,186,472</u>
Cash paid for goods and services	66,348,554	66,899,632
Cash paid to and on behalf of employees	4,980,404	5,027,952
Cash paid for all types of taxes	753,781	676,342
Cash paid relating to other operating activities	4,946,799	6,526,821
<b>Sub-total of cash outflows</b>	<u>77,029,538</u>	<u>79,130,747</u>
<b>Net cash flows from operating activities</b>	<u>(80,876)</u>	<u>2,055,725</u>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	—	1,329,699
Cash received from return on investments	237,030	124,088
Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net	13,791	86,207
Net cash received from the disposal of subsidiaries	1,441,534	—
<b>Sub-total of cash inflows</b>	<u>1,692,355</u>	<u>1,539,994</u>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	953,535	2,064,261
Cash paid for acquisition of investments	1,689,990	1,763,675
<b>Sub-total of cash outflows</b>	<u>2,643,525</u>	<u>3,827,936</u>
<b>Net cash flows from investing activities</b>	<u>(951,170)</u>	<u>(2,287,942)</u>

**CASH FLOW STATEMENT (AUDITED) (CONTINUED)***(All amounts in RMB'000 unless otherwise stated)*

	<b>2012</b>	2011
<b>III. Cash flows from financing activities</b>		
Cash received from capital injection	—	—
Cash received from borrowings	<u>25,619,869</u>	<u>14,933,865</u>
<b>Sub-total of cash inflows</b>	<u>25,619,869</u>	<u>14,933,865</u>
Cash repayment of borrowings	<u>20,680,559</u>	8,987,158
Cash payments for distribution of dividends, profits and for interest expenses	<u>1,848,438</u>	<u>1,681,469</u>
<b>Sub-total of cash outflows</b>	<u>22,528,997</u>	<u>10,668,627</u>
<b>Net cash flows from financing activities</b>	<u>3,090,872</u>	<u>4,265,238</u>
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<u>(59,123)</u>	<u>(261,444)</u>
<b>V. Net increase in cash and cash equivalents</b>	<u>1,999,703</u>	3,771,577
Add: cash and cash equivalents at beginning of year	<u>13,276,734</u>	<u>9,505,157</u>
<b>VI. Net balance of cash and cash equivalents</b>	<u><u>15,276,437</u></u>	<u><u>13,276,734</u></u>

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>REVENUE</b>	<b>84,219,358</b>	86,254,456
Cost of sales	<u>(65,545,460)</u>	<u>(62,086,367)</u>
Gross profit	<b>18,673,898</b>	24,168,089
Other income and gains	<b>4,508,721</b>	3,664,374
Research and development costs	<b>(8,829,194)</b>	(8,492,623)
Selling and distribution expenses	<b>(11,340,927)</b>	(11,112,176)
Administrative expenses	<b>(2,449,201)</b>	(2,605,579)
Other expenses	<b>(706,139)</b>	(1,684,091)
Finance costs	<b>(1,888,481)</b>	(1,374,163)
Share of profits and losses of:		
Jointly-controlled entities	<b>619</b>	440
Associates	<u><b>47,504</b></u>	<u>70,865</u>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(1,983,200)</b>	2,635,136
Income tax expense	<u>(621,421)</u>	<u>(392,043)</u>
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<u><b>(2,604,621)</b></u>	<u>2,243,093</u>
Attributable to:		
Owners of the parent	<b>(2,840,962)</b>	2,060,166
Non-controlling interests	<u><b>236,341</b></u>	<u>182,927</u>
	<u><b>(2,604,621)</b></u>	<u>2,243,093</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Cash flow hedges — effective portion of changes in fair value of hedging instruments arising during the year	<b>(12,736)</b>	(4,120)
Changes in fair value of available-for-sale investments	<b>30,792</b>	—
Revaluation gain upon transfer from owner-occupied properties to investment properties	<b>932,669</b>	—
Income tax effect	<b>(139,900)</b>	—
Exchange differences on translation of foreign operations	<u><b>(52,445)</b></u>	<u>(346,067)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<u><b>758,380</b></u>	<u>(350,187)</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<u><b>(1,846,241)</b></u>	<u>1,892,906</u>
Attributable to:		
Owners of the parent	<b>(2,103,307)</b>	1,697,115
Non-controlling interests	<u><b>257,066</b></u>	<u>195,791</u>
	<u><b>(1,846,241)</b></u>	<u>1,892,906</u>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>		
Basic	<u><b>RMB(0.83)</b></u>	<u>RMB0.61</u>
Diluted	<u><b>RMB(0.83)</b></u>	<u>RMB0.61</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	8,011,028	8,646,027
Prepaid land lease payments	889,351	862,030
Intangible assets	2,624,944	2,239,648
Investment properties	1,686,158	—
Investments in jointly-controlled entities	46,814	46,195
Investments in associates	408,954	467,896
Available-for-sale investments	1,092,335	819,972
Long-term trade receivables	1,206,642	864,274
Factored long-term trade receivables	4,018,484	4,156,083
Deferred tax assets	1,218,605	1,128,836
Pledged deposits	3,157,077	949,666
Long-term prepayments, deposits and other receivables	447,226	691,240
	<b>24,807,618</b>	20,871,867
<b>CURRENT ASSETS</b>		
Prepaid land lease payments	19,677	18,878
Inventories	11,442,389	14,988,379
Amount due from customers for contract works	13,666,100	14,588,455
Trade and bills receivables	26,350,396	27,096,954
Factored trade receivables	4,165,514	3,623,096
Prepayments, deposits and other receivables	5,227,077	5,028,840
Equity investment at fair value through profit or loss	44,919	87,180
Derivative financial instruments	61,378	8,438
Pledged deposits	1,380,180	724,878
Time deposits with original maturity of over three months	86,608	85,000
Cash and cash equivalents	22,659,635	20,662,089
	<b>85,103,873</b>	86,912,187
<b>CURRENT LIABILITIES</b>		
Trade and bills payables	29,593,979	32,692,252
Amount due to customers for contract works	3,459,545	3,068,804
Other payables and accruals	14,833,771	13,407,890
Derivative financial instruments	105,739	5,305
Interest-bearing bank borrowings	18,429,893	11,876,448
Bank advances on factored trade receivables	4,168,932	3,789,731
Bonds cum warrants	4,018,134	—
Tax payable	608,336	880,275
Dividends payable	205,783	170,046
	<b>75,424,112</b>	65,890,751
<b>NET CURRENT ASSETS</b>	<b>9,679,761</b>	21,021,436
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>34,487,379</b>	41,893,303

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

	<b>2012</b>	2011
	<i>RMB'000</i>	<i>RMB'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b><u>34,487,379</u></b>	<u>41,893,303</u>
<b>NON-CURRENT LIABILITIES</b>		
Derivative financial instruments	<b>10,747</b>	1,248
Bonds payable	<b>6,107,993</b>	3,884,198
Interest-bearing bank borrowings	<b>989,990</b>	6,940,702
Bank advances on factored long-term trade receivables	<b>4,018,484</b>	4,156,083
Financial guarantee contract	<b>3,689</b>	3,689
Deferred tax liabilities	<b>139,900</b>	—
Provision for retirement benefits	<b>54,041</b>	48,716
Other long-term payables	<b>523,805</b>	569,892
Total non-current liabilities	<b><u>11,848,649</u></b>	<u>15,604,528</u>
Net assets	<b><u><u>22,638,730</u></u></b>	<u><u>26,288,775</u></u>
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	<b>3,440,078</b>	3,440,078
Shares subject to lock-up under the Share Incentive Scheme	—	(40,537)
Reserves	<b>18,062,396</b>	20,145,986
Proposed final dividend	—	686,190
	<b><u>21,502,474</u></b>	<u>24,231,717</u>
<b>Non-controlling interests</b>	<b><u>1,136,256</u></b>	<u>2,057,058</u>
Total equity	<b><u><u>22,638,730</u></u></b>	<u><u>26,288,775</u></u>

**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 2012. 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 of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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.

## 2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The HKICPA has issued the following revised HKFRSs, which are effective for the financial year ended 31 December 2012:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKAS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i>

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis.

The presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale has been rebutted by the Group as the Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly deferred tax has been determined on the basis of recovery through use. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

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

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — <i>Transition Guidance</i> <sup>2</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) — <i>Investment Entities</i> <sup>3</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>2</sup>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>2</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>2</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup>
HK(IFRIC)-Int 20 <i>Annual Improvements 2009–2011 Cycle</i>	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>2</sup> Amendments to a number of HKFRSs issued in June 2012 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

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

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK (SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK (SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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.

HKFRS 12 includes 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which 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. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 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.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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 provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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.

The *Annual Improvements to HKFRSs 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group’s policies are as follows:

- (a) *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.

- (b) *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.



#### 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-controlled entities, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in jointly-controlled entities 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.



Year ended 31 December 2012	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>				
Telecommunications system contracts	41,602,641	—	13,612,066	55,214,707
Sale of goods and services	—	25,838,804	3,165,847	29,004,651
	<u>41,602,641</u>	<u>25,838,804</u>	<u>16,777,913</u>	<u>84,219,358</u>
<b>Segment results</b>	5,813,740	544,063	1,397,425	7,755,228
Bank and other interest income				149,409
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 jointly-controlled entities				48,123
Loss before tax				<u>(1,983,200)</u>
<b>Segment assets</b>	35,099,356	11,594,963	14,155,206	60,849,525
Investments in jointly-controlled entities				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>	9,834,371	953,128	3,966,100	14,753,599
Corporate and other unallocated liabilities				72,519,162
Total liabilities				<u>87,272,761</u>
<b>Other segment information:</b>				
Impairment losses recognised in profit or loss	230,713	143,293	93,044	467,050
Depreciation and amortisation	765,139	475,217	308,573	1,548,929
Capital expenditure*	<u>1,366,329</u>	<u>848,607</u>	<u>551,026</u>	<u>2,765,962</u>

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

Year ended 31 December 2011	Networks <i>RMB'000</i>	Terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>				
Telecommunications system contracts	46,522,048	—	9,129,909	55,651,957
Sale of goods and services	—	26,933,508	3,668,991	30,602,499
	<u>46,522,048</u>	<u>26,933,508</u>	<u>12,798,900</u>	<u>86,254,456</u>
<b>Segment results</b>	11,519,506	212,726	1,948,736	13,680,968
Bank and other interest income				283,618
Dividend income and unallocated gains				3,380,756
Corporate and other unallocated expenses				(13,407,348)
Finance costs				(1,374,163)
Share of profits and losses of associates and jointly-controlled entries				<u>71,305</u>
Profit before tax				<u>2,635,136</u>
<b>Segment assets</b>	40,918,534	13,141,415	11,257,292	65,317,241
Investments in jointly-controlled entities				46,195
Investment in associates				467,896
Corporate and other unallocated assets				<u>41,952,722</u>
Total assets				<u>107,784,054</u>
<b>Segment liabilities</b>	9,964,112	767,660	2,741,274	13,473,046
Corporate and other unallocated liabilities				<u>68,022,233</u>
Total liabilities				<u>81,495,279</u>
<b>Other segment information:</b>				
Impairment losses recognised in profit or loss	510,603	295,609	140,475	946,687
Depreciation and amortisation	768,137	444,706	211,325	1,424,168
Capital expenditure	<u>2,072,898</u>	<u>1,200,085</u>	<u>570,284</u>	<u>3,843,267</u>

## Geographical information

### (a) Revenue from external customers

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
The PRC (place of domicile)	39,556,077	39,496,611
Asia (excluding the PRC)	16,062,667	15,633,325
Africa	7,820,599	10,677,523
Europe, Americas and Oceania	20,780,015	20,446,997
	<u>84,219,358</u>	<u>86,254,456</u>

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

### (b) Non-current assets

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
The PRC (place of domicile)	11,031,085	9,519,671
Asia (excluding the PRC)	1,070,231	1,000,455
Africa	334,785	391,603
Europe, Americas and Oceania	775,380	835,976
	<u>13,211,481</u>	<u>11,747,705</u>

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

## 5. REVENUE

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Revenue</b>		
Telecommunications system contracts	55,214,707	55,651,957
Sale of goods	25,838,804	26,933,508
Sale of services	3,165,847	3,668,991
	<u>84,219,358</u>	<u>86,254,456</u>

## 6. PROFIT/(LOSS) BEFORE TAX

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Cost of goods and services	45,255,672	52,185,748
Depreciation	1,042,966	1,026,399
Amortisation of land lease payments	17,233	16,983
Amortisation of intangible assets other than deferred development costs	125,690	85,657
Research and development costs:		
Deferred development costs amortised	363,040	259,130
Current year expenditure	9,350,518	8,951,729
Less: Deferred development costs	<b>(884,364)</b>	<b>(718,236)</b>
	<b>8,829,194</b>	<b>8,492,623</b>
Fair value losses, net*:		
Derivative instruments — transactions not qualifying as hedges	49,456	77,860
Equity investments held for trading	42,261	10,815
Investment properties	15,679	—
Impairment of trade receivables*	330,484	576,537
Provision for warranties	303,007	516,152
Write-down of inventories to net realisable value**	134,007	370,150
Impairment of property, plant and equipment	2,559	—
Minimum lease payments under operating leases on land and buildings	622,478	509,877
Contingent rental income in respect of operating leases	<b>(159,055)</b>	<b>(89,219)</b>
Auditors' remuneration	6,985	7,292
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	11,653,643	11,465,702
Equity-settled share option expense	6,722	41,821
Retirement benefit scheme contributions:		
Defined benefit pension scheme	6,314	6,352
Defined contribution pension schemes	750,667	730,096
	<b>12,417,346</b>	<b>12,243,971</b>
Foreign exchange loss*	136,113	836,993
Loss on disposal of items of property, plant and equipment*	19,446	30,629
Gain on disposal of Nationz Technologies Inc.	—	(866,503)
(Gain)/loss on disposal of subsidiaries	<b>(1,194,242)</b>	18,801
Gain on deemed disposal of interest in an associate	<b>(61,223)</b>	—
Fair value losses of assumed liabilities in a previous disposal of a subsidiary	67,295	—
Other	<b>(2,616)</b>	—
Gain on disposal of available-for-sale investments	—	<b>(5,931)</b>

\* 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 comprehensive income.

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

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	<b>Group</b>	
	<b>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest on bank loans wholly repayable within five years	<b>856,066</b>	691,954
Interest on bonds cum warrants	<b>165,936</b>	160,408
Interest on bonds payable	<b>142,781</b>	—
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	<b>1,164,783</b>	852,362
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	<b>723,698</b>	521,801
	<hr/>	<hr/>
	<b><u>1,888,481</u></b>	<u>1,374,163</u>

## 8. INCOME TAX

	<b>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Group:		
Current — Hong Kong	<b>(5,380)</b>	2,974
Current — Mainland China	<b>584,672</b>	799,675
Current — Overseas	<b>131,898</b>	152,152
Deferred	<b>(89,769)</b>	(562,758)
	<hr/>	<hr/>
Total tax charge for the year	<b><u>621,421</u></b>	<u>392,043</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Proposed final — RMBNil (2011: RMB0.2) per ordinary share	<u>—</u>	<u>686,190</u>

The said 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 3,430,952,000 (2011: 3,390,411,470) 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 31 December 2012 as its effects would be anti-dilutive.

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

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Earnings</b>		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	<u>(2,840,962)</u>	<u>2,060,166</u>
	<b>Number of shares</b>	
	<b>2012</b>	2011
	<i>'000</i>	<i>'000</i>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation <sup>#</sup>	<u>3,430,952</u>	3,390,411
Shares subject to lock-up under the Share Incentive Scheme	<u>—</u>	6,874
Adjusted weighted average number of ordinary shares in issue	<u><u>3,430,952</u></u>	<u><u>3,397,285</u></u>

<sup>#</sup> In the calculation of basic earnings per share, 2,536,742 Subject Shares proposed to be lapsed have been deducted from the total share capital as at the end of the period.

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

	Group		Company	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	<b>30,536,450</b>	30,643,306	<b>42,018,279</b>	38,977,582
Impairment	<b>(2,979,412)</b>	(2,682,078)	<b>(2,085,831)</b>	(2,079,511)
	<b>27,557,038</b>	27,961,228	<b>39,932,448</b>	36,898,071
Current portion	<b>(26,350,396)</b>	(27,096,954)	<b>(38,732,887)</b>	(36,128,157)
Long-term portion	<b>1,206,642</b>	864,274	<b>1,199,561</b>	769,914

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	
	2012	2011	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	<b>23,293,955</b>	24,390,814	<b>30,668,406</b>	25,667,698
7 to 12 months	<b>3,147,913</b>	2,296,520	<b>2,035,926</b>	4,292,698
1 to 2 years	<b>1,007,925</b>	1,174,085	<b>3,658,347</b>	3,188,689
2 to 3 years	<b>107,245</b>	99,809	<b>1,009,775</b>	1,281,835
Over 3 years	—	—	<b>2,559,994</b>	2,467,151
	<b>27,557,038</b>	27,961,228	<b>39,932,448</b>	36,898,071
Current portion of trade and bills receivables	<b>(26,350,396)</b>	(27,096,954)	<b>(38,732,887)</b>	(36,128,157)
Long-term portion	<b>1,206,642</b>	864,274	<b>1,199,561</b>	769,914



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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	<b>2,682,078</b>	2,182,947	<b>2,079,511</b>	1,709,965
Impairment losses recognised	<b>378,295</b>	618,479	<b>37,529</b>	388,701
Amount write off as uncollectible	<b>(33,150)</b>	(77,406)	<b>(6,565)</b>	(13,400)
Impairment losses reversed	<b>(47,811)</b>	(41,942)	<b>(24,644)</b>	(5,755)
At 31 December	<b><u>2,979,412</u></b>	<u>2,682,078</u>	<b><u>2,085,831</u></b>	<u>2,079,511</u>

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB639,662,000 (2011: RMB673,371,000) with a carrying amount before provision of RMB639,662,000 (2011: RMB673,371,000). 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>2012</b>	2011	<b>2012</b>	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	<b>5,086,352</b>	5,746,119	<b>9,174,188</b>	9,241,251
Less than one year past due	<b>13,948,065</b>	19,420,846	<b>22,537,797</b>	19,407,690
	<b><u>19,034,417</u></b>	<u>25,166,965</u>	<b><u>31,711,985</u></b>	<u>28,648,941</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, associates and other related companies included in the above are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
Subsidiaries	—	—	<b>21,690,412</b>	18,414,733
The controlling shareholder	<b>346</b>	77	—	—
A jointly-controlled entity	<b>100,819</b>	88,966	<b>100,819</b>	88,966
Associates	—	1,652	—	—
Related companies	<b>2,654</b>	25,957	<b>618</b>	16,773
	<b><u>103,819</u></b>	<u>116,652</u>	<b><u>21,791,849</u></b>	<u>18,520,472</u>

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

The Group has pledged trade receivables of RMB950,000,000 and bills receivables of RMB617,229,000 (2011: RMB1,105,174,000 and RMB1,015,380,000) 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>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
Within 6 months	<b>29,083,388</b>	32,263,588	<b>47,305,924</b>	43,665,761
7 to 12 months	<b>177,299</b>	299,452	<b>110,417</b>	217,409
1 to 2 years	<b>267,454</b>	87,206	<b>237,015</b>	3,992
2 to 3 years	<b>31,811</b>	13,278	<b>4,212</b>	1,101
Over 3 years	<b>34,027</b>	28,728	<b>4,087</b>	13,653
	<b><u>29,593,979</u></b>	<u>32,692,252</u>	<b><u>47,661,655</u></b>	<u>43,901,916</u>

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	<i><b>RMB'000</b></i>	<i>RMB'000</i>	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Subsidiaries	—	—	<b>43,041,820</b>	28,663,445
The controlling shareholder	<b>65,376</b>	70,404	—	—
Associates	<b>19,080</b>	154,025	—	—
Related companies	<b>138,991</b>	88,159	<b>87</b>	79
	<b>223,447</b>	312,588	<b>43,041,907</b>	28,663,524

The balances are unsecured, interest-free 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

On 28 December 2012, the Company and ZTE (H.K.) Limited (“ZTE HK”), a subsidiary of the Company, entered into an equity transfer agreement with Ocean Delight Investments Limited (“Ocean Delight”) in respect of Shenzhen ZTE Netview Technology Company Limited (“ZNV”), a subsidiary of the Company, pursuant to which the Company and ZTE HK proposed to dispose of a total of 81% equity interests in ZNV held directly or indirectly by the Company to Ocean Delight. The consideration of the US Dollar equivalent of RMB1,292 million has been negotiated by reference to the financial and operating conditions of ZNV. On 16 January 2013, registration of changes with industrial and commercial authorities in respect of the said equity transfer was completed and, as at the date of issue of the financial report, the Company and ZTE HK had received payments for the equity transfer in full.