ZTE中兴 中兴通讯股份有限公司 ZTE CORPORATION

Interim Report 2013

Stock Code : 000063.SZ | 763.HK

Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of this report.

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

This report has been considered and approved at the Seventh Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the meeting due to work reasons, and has authorised Mr. Zhang Jianheng, Vice Chairman, 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. Wei Wei, Independent Non-executive Director, was unable to attend the meeting due to work reasons, and has authorised Mr. Tan Zhenhui, Independent Non-executive Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2013 are unaudited.

Mr. Hou Weigui, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in this report.

No profit distribution or capitalisation of capital reserves will be implemented in respect of the interim period of 2013.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks.

This report has been prepared in Chinese and English respectively. In case of discrepancy in the interpretation of this report, the Chinese version shall prevail, except for the financial statements prepared in accordance with Hong Kong Finance Reporting Standards, of which the English version shall prevail.

CONTENTS

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary."

"Company" or "ZTE"	ZTE Corporation, a limited company incorporated in China on 11 November 1997 under the Company Law of China, the A shares and H shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
"Articles of Association"	The Articles of Association of ZTE Corporation (as amended from time to time)
"Group"	ZTE and one or more of its subsidiaries
"Board of Directors"	The board of directors of the Company
"Directors"	Members of the board of directors of the Company
"Supervisory Committee"	The supervisory committee of the Company
"Supervisors"	Members of the supervisory committee of the Company
"China" or "PRC"	The People's Republic of China
"ITU"	International Telecommunications Union, is a specialised agency of the United Nations for information and communication technologies
"Company Law"	Company Law of the People's Republic of China
"Securities Law"	Securities Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"Shenzhen CSRC"	The CSRC Shenzhen Bureau
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange of China
"Shenzhen Listing Rules"	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"HKFRSs"	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards ("HKASs") and Interpretations)
"PRC ASBEs"	Generally accepted accounting principles in China
"CASC"	China Aerospace Science and Technology Corporation and its subsidiaries
"Xi'an Microelectronics"	Xi'an Microelectronics Technology Research Institute
"Aerospace Guangyu"	Shenzhen Aerospace Guangyu Industrial Company Limited
"Zhongxing WXT"	Shenzhen Zhongxing WXT Equipment Company Limited

"Zhongxingxin"	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
"Zhongxing Xinyu"	Shenzhen Zhongxing Xinyu FPC Company Limited
"Zhongxing Software"	Shenzhen Zhongxing Software Company Limited
"ZTE HK"	ZTE (H.K.) Limited
"ZTE Kangxun"	Shenzhen ZTE Kangxun Telecom Company Limited
"Nationz Technologies"	Nationz Technologies, Inc.
"China All Access"	China All Access (Holdings) Limited
"Speed"	Huizhou Speed Wireless Technology Co., Ltd.
"ZTE Capital"	Shenzhen ZTE Capital Management Company Limited
"Zhonghe Chunsheng Fund"	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
"ZNV"	Shenzhen ZNV Technology Co., Ltd.
"Ocean Delight"	Ocean Delight Investments Limited
"BOCHK"	Bank of China (Hong Kong) Limited
"Zhongxing Development"	Zhongxing Development Company Limited
"Chongqing Zhongxing Development"	Chongqing Zhongxing Development Company Limited
"Zhongxing Hetai"	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
"Mobi Antenna"	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
"Huatong"	Huatong Technology Company Limited
"Nanchang Software"	Zhongxing Software Technology (Nanchang) Company Limited
"ZTE France"	ZTE France SASU

Glossary

This glossary contains definitions of certain technical terms used in this report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage.

2G	Second-generation mobile networks utilising digital wireless technology to provide larger network capacity, improved voice quality and encryption to provide seamless international roaming for users. Existing mobile communications networks are mainly 2G GSM and CDMA utilising GSM, GPRS and IS-95B technology for CDMA with a data supply capacity of up to 115.2Kbps, or 384Kbps in case of GSM featuring EDGE technology.
3G	Third-generation mobile networks supporting peak data rates of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps in fixed locations, although some initial deployments were configured to support just 64Kbps. ITU coordinates 3G standards through its IMT-2000 project and key standardisation organisations such as 3GPP and 3GPP2.
4G	IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, supporting theoretical download rates of 1Gbit/s in fixed locations and 100Mbit/s in motion.
GSM	A global system for cellular mobile communications originated in Europe, which has been deployed in more than 170 countries using TDMA radio propagation technology.
CDMA	Code division multiple access, one of the technology standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all voice and data bits, sends a scrambled transmission of the encoded voice over the air and reassembles the voice in its original format. By assigning a unique correlating code to each transmitter, the technology standard allows several simultaneous conversations to share the same frequency allocations.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed by China to support voice and data transmission.
LTE	LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core technology, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection at any time, any location and among any objects. It can help to realise the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
Cloud Computing	A concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and scheduling of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.

Bearer network	Bearer layer network that provides the basic bearer function for services. It directs each service information flow from its source to the destination according to various requirements of the service layer and schedules network resources on the basis of the attributes of each service requirement to ensure the functionality and performance of the service, providing QoS assurance and network security assurance for communications of different types and natures.
Core network	Mobile network comprising a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
PON	The provision of optical access services to users through the use of passive optical network technology, offering functions such as Qos, flow management and security control. PON can be distinguished into FTTH and FTTB, etc based on different destinations of optical connection, or GPON, EPON and 10G EPON, etc based on different standards.
PCT international patent	PCT stands for Patent Cooperation Treaty. Patent applications filed pursuant to PCT are referred to as PCT international patent applications. A single filing of an international patent application under PCT will enable the applicant to demand patent protection for its inventions in numerous countries at the same time.
Mobile Internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad, etc. Enriched by the popularisation of smart terminals, Mobile Internet services now include mobile computing, mobile music, smart phone games, positioning technology, wireless communities and wireless payments, etc.

Corporate Information

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Hou Weigui
3	Secretary to the Board of Directors/ Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong Cao Wei
	Correspondence address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	fengjianxiong@zte.com.cn
4	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	fengjianxiong@zte.com.cn
	Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
5	Newspapers designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews. hk
	Place where this report is available for inspection	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, People's Republic of China
6	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063
		Bonds cum Warrants Shenzhen Stock Exchange Abbreviated name of bond: 中興債1 Bond code: 115003 Maturity on 30 January 2013
		Corporate Bonds Shenzhen Stock Exchange Abbreviated name of bond: 12中興01 Bond code: 112090

		H shares Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
7	Change in registration details	There were no change in the registration details, such as the date and place of registration, corporate business licence registration number, tax registration number and entity code, etc, of the Company during the reporting period. For details please refer to the section headed "Corporate Information" in the 2012 Annual Report.
8	Change in other relevant information	☐ Applicable ✓ N/A

Highlights of Accounting Data and Financial Indicators

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in thousands

Items	End of the reporting period (30 June 2013)	End of last year (31 December 2012)	Change as at the end of the reporting period compared with the end of last year
Total assets	102,578,802	107,446,306	(4.53%)
Owner's equity attributable to shareholders of the listed company	21,712,353	21,502,474	0.98%
Share capital (thousand shares)	3,440,078	3,440,078	—
Net asset per share attributable to shareholders of the listed company (RMB/share) Note 1	6.32	6.26	0.96%
Gearing ratio (%)	77.80%	78.93%	Decreased by 1.13 percentage points

Items	Reporting Period (Six months ended 30 June 2013)	Same period of last year (Six months ended 30 June 2012)	Change compared with the same period of last year
Operating revenue	37,576,212	42,641,898	(11.88%)
Operating profit	(772,673)	(863,347)	10.50%
Total profit	741,781	655,632	13.14%
Net profit attributable to shareholders of the listed company	310,012	244,875	26.60%
Net profit after extraordinary items attributable to shareholders of the listed company	(752,372)	(59,383)	(1,166.98%)
Basic earnings per share (RMB/share) Note 2	0.09	0.07	28.57%
Diluted earnings per share (RMB/share) Note 3	0.09	0.07	28.57%
Basic earnings per share after extraordinary items (RMB/share) Note 2	(0.22)	(0.02)	(1,000.00%)
Weighted average return on net assets (%)	1.43%	1.00%	Increased by 0.43 percentage points
Weighted average return on net assets after extraordinary items (%)	(3.48%)	(0.24%)	Decreased by 3.24 percentage points
Net cash flows from operating activities	(4,341,084)	(3,639,672)	(19.27%)
Net cash flows from operating activities per share (RMB/share) Note 4	(1.26)	(1.06)	(18.87%)

Note 1: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2013 and the end of 2012 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 2: Basic earnings per share for the first half of 2013 was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as 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 the same period of the previous year was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the Share Incentive Scheme;

Note 3: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 0 and 6,874,194 potentially dilutive ordinary shares for the reporting period and the same period of 2012, respectively, therefore diluted earnings per share have been calculated on the basis of basic earnings per share taking into account the said factors;

Note 4: Net cash flows from operating activities per share for the first half of 2013 were calculated on the basis of the number of shares representing 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; net cash flows from operating activities per share for the first half of 2012 was calculated on the basis of the number of shares representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the Phase I Share Incentive Scheme.

Extraordinary gains or losses items and amounts deducted are set out as follows:

Unit: RMB in thousands

Extraordinary items	**Amount**
Non-operating income	297,899
Gains/(Losses) from changes in fair values	162,888
Investment income	831,274
Less: Gains/(Losses) arising on disposal of non-current assets	7,171
Less: Other non-operating expenses	35,027
Less: Effect of income tax	187,479
Total	1,062,384

(II) MAJOR FINANCIAL INDICATORS PREPARED IN ACCORDANCE WITH HKFRSs

Items	**Six months ended 30 June 2013**	Six months ended 30 June 2012
Basic earnings per share (RMB/share) Note 1	**0.09**	0.07
Weighted average return on net assets (%)	**1.43%**	1.00%
Weighted average return on net assets after extraordinary items (%)	**(3.48%)**	(0.24%)

Items	**As at 30 June 2013**	As at 31 December 2012
Net asset per share attributable to shareholders of the listed company (RMB/share) Note 2	**6.32**	6.26

Note 1: Basic earnings per share for the first half of 2013 was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as 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 the same period of the previous year was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the Share Incentive Scheme;

Note 2: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2013 and the end of 2012 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company.

(III) THE AMOUNT OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP FOR THE SIX MONTHS ENDED AND AS AT 30 JUNE 2013 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Report of the Board of Directors

The Board of Directors of the Company is pleased to present this interim report together with the financial statements of the Group for the six months ended 30 June 2013.

FINANCIAL RESULTS

Please refer to page 72 and page 207 of this report for the results of the Group for the six months ended 30 June 2013 prepared in accordance with PRC ASBEs and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2013

1. Overview of the PRC telecommunications industry in the first half of 2013

During the first six months of 2013, domestic carriers were actively engaged in equipment tenders, the specific deployment plans for which are expected to be revealed in the second half of the year. The growth in investments in the telecommunications industry was mainly driven by the large-scale deployment of 4G networks and the construction of pertinent ancillary facilities with a strong focus on wireless, broadband and transmission networks, while ongoing progress was also reported for the development of new strategic industries such as Cloud Computing and the Internet of Things. According to statistics published by the Ministry of Industry and Information Technology, revenue from principal operations for the domestic telecommunications sector amounted to RMB564.26 billion for the first six months of 2013, representing a year-on-year growth of 8.9%.

2. Overview of the global telecommunications industry in the first half of 2013

Growth in equipment investment by the global telecommunications industry was slow during the first half of 2013. With the gradual exit of 2G networks, in-depth operation of 3G networks, large-scale deployment of 4G networks and the continuous growth in consumers' demand for smart phones, the load of network flow also increased. Confronted with competition on various fronts, global carriers were actively identifying effective means to lower operating costs as well as new niches for business growth. National broadband strategies adopted by various countries coupled with technology upgrades taking place in relevant industries have driven the construction of global broadband networks, while increased data traffic over wireless networks and the ongoing construction of broadband networks have combined to advance the large-scale construction of transmission networks.

3. Operating results of the Group for the first half of 2013

During the first half of 2013, while global carriers tended to adopt a more rational approach in equipment investment, the Group continued to work diligently to cater to the technological preferences and network construction plans of global carriers in persistent implementation of its strategy to focus on major populous nations and leading carriers. Nevertheless, the Group's overall operating revenue decreased by 11.88% to RMB37.576 billion as compared to the same period of 2012, reflecting the decline in operating revenue from GSM and UMTS products in the domestic market and GSM handsets and data cards in both the domestic and international markets. Gross profit margin improved despite lower operating revenue as compared to the same period last year, thanks to the Group's effort to strengthen control over the profitability of contracts during the reporting period. Costs and expenses (selling and distribution costs, administrative expenses and research and development costs) for the period decreased significantly as compared to the same period last year, reflecting the Group's emphasis on cost utilisation efficiency. Under the combined effect of improved gross profit margin, lower costs and expenses for the period, increased exchange losses and investment income arising from the disposal of ZNV, the Group reported net profit attributable to shareholders of the listed company of RMB0.31 billion for the six months ended 30 June 2013, representing a year-on-year growth of 26.60%. Basic earnings per share amounted to RMB0.09.

1) ***By market***

The domestic market

For the reporting period, the Group reported operating revenue of RMB18.821 billion from the domestic market, accounting for 50.1% of the Group's overall operating revenue. The Group worked in close tandem with the technological preferences and network construction plans of carriers to capitalise on market opportunities presented by large-scale deployment of 4G networks, the Broadband China strategy and the construction of its ancillary transmission networks. Meanwhile, we further enhanced our control over the profitability of contracts to ensure sustainable development.

The international market

For the reporting period, the Group reported operating revenue of RMB18.755 billion from the international market, accounting for 49.9% 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, enhancing its presence in strategic new products, solutions and frontiers to optimise its market exposure and achieve in-depth operation.

2) ***By product***

For the reporting period, the Group reported operating revenue of RMB19.050 billion for carriers' networks, RMB12.461 billion for terminals, and RMB6.065 billion for telecommunication software systems, services and other products.

Carriers' networks

In connection with wireless products, the Group committed its best resources to 4G product research and development to enhance its product competitiveness and provide an important foundation for the new cycle of investment in wireless equipment. In the traditional 2G/3G market, the Group's effort to improve gross profit margin by optimising its sales mix has been rewarded with initial results. The Group was also committed to enhancing its R&D as well as marketing efforts for government and enterprise network product solutions, in order to provide groundwork for the long-term sustainable development of its wireless products.

In connection with wireline and optical communications products, the rapid development of the broadband market coupled with the construction of supporting facilities for the Mobile Internet were driving domestic and international carriers alike into vigorous planning for transmission networks to match increasing network traffic. With the benefit of this favourable development and on the back of superior product competitiveness, the Group reported relative fast growth in operating revenue from its international sales of wireline switch and access products and sound growth in operating revenue from its domestic sales of optical communications products.

In service products, the Group also reported positive development by enhancing innovation of products for value-added telecommunications services, while continuing to make breakthroughs in business with mainstream global carriers with the aid of broadband multimedia products.

Report of the Board of Directors

Terminals

For the first six months of 2013, while operating revenue from terminal products decreased in line with weaker market demand for feature phones and data cards, operating revenue from the Group's smart terminals sustained growth to account for an increasing share of operating revenue, thanks to burgeoning consumers' demand for smart terminals effectively driven by the large-scale deployment of 4G networks and rapid development of the Mobile Internet, as well as the Group's ongoing effort to advance strategic cooperation with mainstream global carriers and its own brand building through R&D and the strategic transformation of its products.

Telecommunication software systems, services and other products

For the reporting period, operating revenue from the Group's telecommunication software systems, services and other products reported year-on-year decrease of 14.75%, reflecting mainly the decrease in operating revenue from service products.

(II) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH PRC ASBEs

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes thereto.

1. Overall operating results of the Group during the reporting period

Unit: RMB in thousands

Item	Six months ended 30 June 2013	Six months ended 30 June 2012	Percentage of increase/ decrease
Operating revenue	**37,576,212**	42,641,898	(11.88%)
Operating profit	**(772,673)**	(863,347)	10.50%
Net profit attributable to shareholders of the listed company	**310,012**	244,875	26.60%

2. Breakdown of indicators for the reporting period by industry, product and region segments and comparison with the same period last year

Revenue mix	Operating revenue (RMB in thousands)	Operating costs (RMB in thousands)	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)
I. By industry						
Manufacturing of communication equipment	37,576,212	27,234,174	27.52%	(11.88%)	(12.93%)	0.87
Total	**37,576,212**	**27,234,174**	**27.52%**	**(11.88%)**	**(12.93%)**	**0.87**
II. By product						
Carriers' networks	19,050,466	12,419,933	34.81%	(10.48%)	(13.88%)	2.58
Terminals	12,460,868	10,538,437	15.43%	(12.54%)	(11.31%)	(1.17)
Telecommunication software systems, services and other products	6,064,878	4,275,804	29.50%	(14.75%)	(14.03%)	(0.59)
Total	**37,576,212**	**27,234,174**	**27.52%**	**(11.88%)**	**(12.93%)**	**0.87**
III. By region						
The PRC	18,821,489	13,277,162	29.46%	(9.88%)	(10.32%)	0.35
Asia (excluding the PRC)	6,327,118	4,924,628	22.17%	(21.01%)	(20.08%)	(0.90)
Africa	3,034,884	2,191,356	27.79%	(22.65%)	(8.71%)	(11.03)
Europe, Americas and Oceania	9,392,721	6,841,028	27.17%	(4.39%)	(13.52%)	7.69
Total	**37,576,212**	**27,234,174**	**27.52%**	**(11.88%)**	**(12.93%)**	**0.87**

The Group reported RMB37,576.2 million in operating revenue for the first six months of 2013, dropping 11.9% as compared with the same period last year. Our domestic revenue decreased by 9.9% to RMB18,821.5 million as compared to the same period last year. Analysed by product segment, year-on-year decline on revenue from carriers' networks, terminals and telecommunication software systems, services and other products contributing to a declining trend of the Group's total operating revenue in the first half of 2013 over the same period last year.

The decrease in revenue from the Group's carriers' networks reflected mainly the combined effects of decreases in revenue generated from wireless communications systems in the domestic market, optical communications systems and data products in the international markets and wireline switch and access products in the domestic markets. The decrease in revenue from the Group's terminals reflected mainly the decrease in revenue generated from data cards and GSM handsets in the domestic and international markets. The decrease in revenue from the Group's telecommunication software systems, services and other products reflected mainly the decrease in revenue from services products in the domestic and international markets.

Report of the Board of Directors

3. **Indicators for major products accounting for over 10% of the Group's operating revenue for the reporting period**

Unit: RMB in thousands

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' network	19,050,466	12,419,933	34.81%
Terminals	12,460,868	10,538,437	15.43%
Telecommunication software systems, services and other products	6,064,878	4,275,804	29.50%

4. **Breakdown of the Group's costs by principal items**

Unit: RMB in thousands

		Six months ended 30 June 2013		Six months ended 30 June 2012		
Industry	**Item**	**Amount**	**As a percentage of operating costs**	Amount	As a percentage of operating costs	**Year-on-year increase/ decrease**
Manufacturing of communication equipment	Raw materials	**21,860,220**	**80.27%**	25,386,184	81.16%	(13.89%)
	Engineering costs	**4,848,437**	**17.80%**	4,794,171	15.33%	1.13%
	Total	**26,708,657**	**98.07%**	30,180,355	96.49%	(11.50%)

5. **Breakdown of the Group's expenses by principal items**

Unit: RMB in thousands

Item	**Six months ended 30 June 2013**	Six months ended 30 June 2012	**Year-on-year increase/ decrease**
Selling and distribution expenses	**4,667,509**	5,323,563	(12.32%)
General and administrative expenses	**1,060,788**	1,038,026	2.19%
Finance expenses	**1,441,554**	831,063	73.46% Note 1
Income tax expenses	**412,537**	263,624	56.49% Note 2
Research and development expenses	**3,627,555**	4,025,433	(9.88%)

Note 1: Attributable mainly to the increase in exchange losses recorded for the reporting period owing to exchange rate volatility.

Note 2: Attributable mainly to the increase in profit for certain subsidiaries.

The Group's research and development expenses for the reporting period accounted for 16.71% and 9.65% respectively, of the Group's net assets attributable to shareholders of the listed company and operating revenue.

6. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	Six months ended 30 June 2013	Six months ended 30 June 2012	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**42,236,729**	46,777,279	(9.71%)
Sub-total of cash outflows from operating activities	**46,577,813**	50,416,951	(7.61%)
Net cash flows from operating activities	**(4,341,084)**	(3,639,672)	(19.27%)
Sub-total of cash inflows from investing activities	**1,499,514**	916,635	63.59% Note 1
Sub-total of cash outflows from investing activities	**2,278,410**	2,270,206	0.36%
Net cash flows from investing activities	**(778,896)**	(1,353,571)	42.46% Note 1
Sub-total of cash inflows from financing activities	**12,820,703**	17,485,994	(26.68%)
Sub-total of cash outflows from financing activities	**14,488,184**	12,548,064	15.46%
Net cash flows from financing activities	**(1,667,481)**	4,937,930	(133.77%) Note 2
Net increase in cash and cash equivalents	**(6,743,944)**	(118,629)	(5,584.90%) Note 2

Note 1: Attributable mainly to cash received from the transfer of equity interests in ZNV;

Note 2: Attributable mainly to the increase in cash paid for loan repayment and the decrease in cash received from loans for the reporting period.

For an explanation of reasons for the difference between net cash flow from operating activities and net profit of the Group for the reporting period, please refer to "Note V.50 Supplemental Information for the Cash Flow Statement" to the financial statements prepared under PRC ASBEs.

7. Reasons for substantial change in the Group's principal business and its structure, breakdown of profit, profitability during the reporting period.

(1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.

(2) Changes in the breakdown of profit during the reporting period compared to the same period last year are set out as follows:

Item	As a percentage of total profit for the six months ended 30 June 2013	As a percentage of total profit for the six months ended 30 June 2012	Year-on-year increase/ decrease (percentage points)
Expenses for the period	**1,455.61%**	1,711.03%	(255.42) Note 1
Impairment loss	**124.93%**	70.24%	54.69 Note 2
Investment income	**109.08%**	13.86%	95.22 Note 3

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Note 1: Attributably mainly to the year-on-year decrease in expense for the period;

Note 2: Attributably mainly to the year-on-year increase in bad debt provision for trade receivables charged for the period;

Note 3: Attributably mainly to the disposal of ZNV equity interests during the period.

(3) There was no significant change in the profitability (gross profit margin) of principal business during the reporting period compared to the same period last year.

8. Assets and liabilities measured at fair value

(1) Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	44,919	(8,553)	—	—	—	(38,569)	15,340
2. Derivative financial assets	61,378	27,771	—	—	—	—	89,149
3. Available-for-sale financial assets	38,420	—	61,856	—	160,505	—	259,134
Sub-total of financial assets	144,717	19,218	61,856	—	160,505	(38,569)	363,623
Investment properties	1,686,158	53,744	—	—	—	—	1,765,400
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	1,830,875	72,962	61,856	—	160,505	(38,569)	2,129,023
Financial liabilities Note	116,486	89,926	7,513	—	—	—	19,381

Note: Financial liabilities included derivative financial liabilities.

There was no significant change to the measurement attributes of the principal assets of the Company during the reporting period.

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

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments at fair value through profit and loss, a small number of available-for-sale financial assets and investment properties which are measured at fair value. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in RMB and USD forward exchange rates.

(3) Internal control systems relating to fair value measurement

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

9. Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	61,378	27,771	—	—	89,149
Including: derivative financial assets	61,378	27,771	—	—	89,149
2. Loans and receivables	46,426,176	—	—	(431,605)	48,605,711
3. Available-for-sale financial assets	167,257	—	62,808	—	367,203
4. Held-to-maturity investments	—	—	—	—	160,505
Sub-total of financial assets	46,654,811	27,771	62,808	(431,605)	49,222,568
Financial liabilities	14,029,482	89,926	7,513	—	13,548,517

10. Technological innovation

The Group has effectively enhanced its technological progress and core competitiveness by closely monitoring trends in the communications industry and fostering capabilities in the development of core technologies and new products on a continued basis, as it persists in the principles of proprietary development and proactive innovation. In terms of organisation and operating mechanisms, the Group has further strengthened strategic planning at the company level and guidance for product planning since the start of 2013. We have also invested in the research and development of the Blue Sea Project in connection with the development of new businesses and frontiers.

The Group maintains an annual R&D budget equivalent to approximately 10% of its operating revenue. We have established R&D centres in China, the United States, Sweden, France, etc. We have built more than 10 joint innovation centres in association with leading carriers to ensure success in the market through better assessment of market demand and customers’ experience.

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As at 30 June 2013, the Group had filed applications for the global patents of over 49,000 items and received patents for over 15,000 items. We had published PCT International Patent Applications for 926 items. Moreover, the Group is member of more than 70 international standardisation organisations and forums, more than 30 experts from the Group holding positions of convenors and report presenters at major international standardisation organizations, having presented over 25,000 papers to international standardisation organisations and obtained editorships and authorships for more than 180 international standards, as we continued to foster strengths in technologies and patents in relation to our key products and technologies, in a bid to enhance our ability to counter patent risks.

In the first half of 2013, the Group undertook to lead in 16 significant technology research projects designated by the government, including the "new-generation broadband wireless mobile telecom network". We also undertook the R&D and commercialisation work for over ten projects, such as the National 863 Programme, the Electronics Development Fund, the Satellite Project of the National Development and Reform Commission and the Technology Programme of Guangdong Province.

The "ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes in Telecommunications" has been formed to solicit memberships among leading domestic colleges and research institutes specialising in communications technologies, in support of the government's call for the formation of a regime for cooperation in technological innovation, where the business, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 27 institutions have joined the Forum.

11. Analysis of Investments

(1) Equity investments

① Overview

The Group's equity investment during the reporting period amounted to approximately RMB435,117,300, representing a decrease of 24.05% compared to RMB572,896,000 for the same period of 2012. For details of the Company's equity investment in third parties and the investees, please refer to Note V.12 "Investments in jointly-controlled entities and associates" and Note V.13 "Long-term equity investments" to the financial statements prepared under PRC ASBEs.

② Investment in securities

A. Securities investment by the Company at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300077	Nationz Technologies	172.38	312.58	1.15%	100	0.37%	1,534.00	897.52	Trading financial assets	Initial investment
Convertible bond (Note)	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	16,050.48	668.77	Held-to-maturity investments	Initial investment
Other investment in securities held at the end of the period			–	–	–	–	–	–	–	–	–
Total			16,481.99	N/A	–	N/A	–	17,584.48	1,566.29	–	–
Announcement date of the Board approving investment in securities							N/A				
Announcement date of the general meeting approving investment in securities							N/A				

Note: China All Access is a company listed on the Hong Kong Stock Exchange. The initial investment for the Company's acquisition of convertible bonds of China All Access amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People's Bank of China on 31 January 2013 (HKD1: RMB0.80941). The book value of the investment as at the end of the reporting period was approximately HKD201.5 million, equivalent to approximately RMB161 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People's Bank of China on 28 June 2013 (HKD1: RMB0.79655).

B. Details in investment in securities

(a) Shareholdings in Nationz Technologies

Nationz Technologies, a company in which the Company holds an equity interest, issued its shares under initial public offering ("IPO") and was listed on the GEM Board of the Shenzhen Stock Exchange on 30 April 2010. On 28 April 2011, Nationz Technologies announced that a period of 12 months had lapsed since its IPO listing. The 54,400,000 shares in Nationz Technologies held by the Company (after the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of Nationz Technologies) would be available for circulation as from 3 May 2011. Pursuant to the "Resolution on the Proposed Disposal of Shares in Nationz Technologies, Inc." passed at the Nineteenth Meeting of the Fifth Session of the Board of Directors of the Company held on 17 May 2011, the disposal of shares in Nationz Technologies by the Company at an appropriate timing and a reasonable price range was approved.

As at the end of the reporting period, the Company held 1 million shares in Nationz Technologies (accounting for approximately 0.37% of the total share capital of Nationz Technologies), all of which were unrestricted circulating shares. As the Company does not exercise significant influence over the operating activities of Nationz Technologies, shares held by the Company have been accounted for as trading financial assets for accounting purposes and investment income and profit/loss from fair value change have been measured at fair value.

(b) Holdings of China All Access convertible bonds

Pursuant to the "Resolution on the subscription for shares and convertible bonds of China All Access (Holdings) Limited by ZTE HK" considered and passed at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" with China All Access on 16 November 2012. On 15 January 2013, ZTE HK completed subscription for convertible bonds with a principal amount of HKD201.5 million issued by China All Access for a total cash consideration of HKD201.5 million. As at the end of the reporting period, the Company held convertible bonds of China All Access in the amount of HKD201.5 million. The convertible bonds held by the Company have been classified as held-to-maturity investments for accounting purposes and interest income arising from the convertible bonds has been included in current profit and loss.

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③ *Holding of equity interests in other listed companies*

A. Shareholdings in Speed

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. Zhonghe Chunsheng Fund held 2 million shares in Speed which was listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 2.14% of the total share capital of Speed.

B. Shareholdings in China All Access

Pursuant to the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" entered into by ZTE HK, a wholly-owned subsidiary of the Company, with China All Access on 16 November 2012, ZTE HK subscribed for 112 million shares allotted and issued by China All Access on 15 January 2013 for a total cash consideration of HKD201.5 million.

As at the end of the reporting period, the Company held 112 million shares in China All Access, accounting for approximately 8.43% of the total share capital of China All Access. Such shares are subject to a lock-up period of one year (from 15 January 2013 to 15 January 2014).

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300322	Speed Note 1	762.79	200	2.14%	200	2.14%	3,610.00	–	Available-for-sale financial assets	Initial investment
Stock	00633	China All Access Note 2	16,309.61	11,200	8.43%	11,200	8.43%	22,303.40	–	Available-for-sale financial assets	Initial investment
Total			17,072.40	11,400	–	11,400	–	25,913.40	–		–

Note 1: Figures corresponding to Speed are provided with Zhonghe Chunsheng Fund as the accounting subject. Speed implemented the 2012 equity distribution plan on 25 June 2013, whereby shareholders were issued 2 shares for every 10 shares held by way of capitalisation of capital reserves. Speed obtained a Corporate Business Licence issued by Huizhou Bureau for Industrial and Commercial Administration in replacement on 24 July 2013 and completed the change of registration details with the industrial and commercial authorities. From 24 July 2013, Zhonghe Chunsheng Fund was interested in 2.40 million Speed shares.

Note 2: The initial investment for the Company's acquisition of China All Access shares amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People's Bank of China on 31 January 2013 (HKD1: RMB0.80941). The book value of the investment as at the end of the reporting period was approximately HKD280 million, equivalent to approximately RMB223 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People's Bank of China on 28 June 2013 (HKD1: RMB0.79655).

④ *Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities firms, insurance companies, trusts or futures companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.*

(2) Derivative investments, entrusted investments and entrusted loans

① Derivative Investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets [note] of the Company at the end of the period (%)	Actual profit or loss for the reporting period
HSBC	N/A	No	Interest rate swap	0	19 December 2011	8 July 2016	31,428	0	30,894	1.42%	0
Standard Chartered Bank	N/A	No	Interest rate swap	0	22 December 2011	8 July 2016	31,428	0	30,894	1.42%	0
BNP Paribas	N/A	No	Foreign exchange forward contract	0	16 November 2012	28 April 2014	0	0	214,003	9.86%	2,112
BOC	N/A	No	Foreign exchange forward contract	0	1 March 2012	25 July 2014	4,400	0	200,125	9.22%	1,859
HSBC	N/A	No	Foreign exchange forward contract	0	5 March 2012	19 May 2014	142,653	0	113,120	5.21%	2,526
Other banks	N/A	No	Foreign exchange forward contract	0	29 December 2011	27 June 2014	208,080	0	223,702	10.30%	1,894
Total				**0**	**–**	**–**	**417,989**	**0**	**812,738**	**37.43%**	**8,391**

Source of funds for derivative investment	Internal funds
Litigation (if applicable)	Not involved in any litigation
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	"Announcement of Resolutions of the Fortieth Meeting of the Fifth Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2013", both dated 27 March 2013
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement of Resolutions of the 2012 Annual General Meeting" dated 30 May 2013.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Derivative investments conducted during the first half year of 2013 included value-protection derivatives. The major risks and control measures are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value-protection derivatives investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date;

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	2. Liquidity risks: The value-protection derivatives investments of the Company were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small. 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks. 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks. 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.
Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The gains from investments in derivatives during the reporting period were recognised by the Company. Total gains recognised for the reporting period amounted to RMB83.91 million, comprising gains from fair-value change of RMB122.73 million and recognised investment losses of RMB38.82 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.

Specific opinion of Independent Directors on the Company's derivative investments and risk control	**Independent Non-executive Directors' Opinion:** The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange-rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries enter into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries are closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

Note: Net assets as at the end of the reporting period represented net assets attributable to the shareholders of the listed company as at the end of the reporting period.

② *During the reporting period, the Company had no entrusted investments or entrusted loans.*

(3) *Use of Proceeds*

① *Overview*

A. Bonds cum Warrants — 中興債1

The Company issued 40 million bonds cum warrants with a value of RMB4 billion ("Bonds cum Warrants") on 30 January 2008. The net proceeds of RMB3,961,443,520 raised from the issue of the Bonds cum Warrants after deduction of the underwriting commission, sponsorship fees and registration fees were deposited into the designated account of the Company opened with China Development Bank, Shenzhen Branch (account number: 44301560040310230000) on 5 February 2008. A capital verification report in respect thereof was issued by Shenzhen Nanfang-Minhe CPA Co., Ltd. on 5 February 2008.

As at 31 December 2009, the amount invested by the Company in projects utilising issue proceeds had met the agreed investment amount set out in issue prospectuses (RMB6,550.39 million) and the portion in excess had been funded by the Company's internal resources. For details, please refer to the "Overseas Regulatory Announcement" published by the Company dated 8 April 2010.

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The exercise period for "中興ZXC1" Warrants ended on 12 February 2010 and a total of 23,348,590 "中興ZXC1" Warrants had been exercised, generating total issue proceeds of RMB912 million. In order to enhance the efficiency of fund application and reduce finance expenses, it was considered and approved at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company that internal funds previously invested in issue proceeds investment projects be replaced with proceeds received from the exercise of warrants. For details, please refer to the "Overseas Regulatory Announcement" published by the Company on 24 March 2010.

B. Corporate Bonds — 12中興01

The Company issued corporate bonds (the "Issue") on 13 June 2012 with a finalised issue size of RMB6,000 million, comprising RMB200 million in online issue and RMB5,800 million in offline issue. The gross proceeds raised from the Issue were deposited into the designated account of the Company on 18 June 2012. A capital verification report ("Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556_H03") in respect of the subscription amounts for the online issue, a capital verification report ("Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556_H04") in respect of the subscription amounts for the offline placing and a capital verification report ("Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556_H05") in respect of the actual receipt of issue proceeds were issued by Ernst & Young Hua Ming LLP per appointment by the Company.

As considered and approved at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2012 of the Company, proceeds from the Issue shall be applied to the repayment of bank loans and provision of additional working capital for the Company. The actual use of the proceeds shall be determined by the Board of Directors, as authorised by the General Meeting, based on the fund requirements of the Company. For details, please refer to the "Overseas Regulatory Announcement" published by the Company on 11 July 2012. As at 31 December 2012, the proceeds raised from the issue had been utilised in full.

② *Commitments of issue proceeds*

For details of the commitment of issue proceeds from the Bonds cum Warrants (中興債1), please refer to the section headed "(3) Use of proceeds ① A. Bonds cum Warrants — 中興債1" under this section; For details of the commitment of issue proceeds from the corporate bonds (12中興01), please refer the section headed "10. Analysis of investment (3) Use of issue proceeds ② commitment of issue proceeds" in the Report of the Board of Directors of the 2012 Annual Report.

③ *Change in the use of issue proceeds*

☐ Applicable ✓ N/A

④ *Projects to which issue proceeds were applied*

☐ Applicable ✓ N/A

(4) Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

Name of company	Corporate type	Business sector	Principal products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Manufacturing	Software development	RMB51.08 million	24,449,848	5,684,419	7,371,169	346,783	1,218,825
ZTE HK	Subsidiary	Information technology	General business	HKD995 million	25,568,868	2,716,744	8,607,621	398,255	326,838
Shenzhen Zhongxing Telecom Technology & Science Company Limited	Subsidiary	Communications services	Communication engineering technology services	RMB50 million	3,573,873	604,896	1,401,991	124,206	103,638
Shenzhen ZTE Kangxun Telecom Company Limited	Subsidiary	Communications and related equipment manufacturing	Manufacturing of electronic products and accessories	RMB1,755 million	16,763,542	2,420,735	21,079,841	360,014	285,252
ZTEsoft Technology Company Limited	Subsidiary	Manufacturing	Systems work contractor	RMB300 million	2,667,423	1,190,110	648,629	54,247	48,441
Shenzhen ZTE Mobile Telecom Company Limited	Subsidiary	Communications and related equipment manufacturing	Manufacturing and sales of communications products	RMB79.166 million	1,605,171	916,851	1,153,294	25,537	48,349
Xi'an Zhongxingxin Software Company Limited	Subsidiary	Communications and related equipment manufacturing	Development of communication service software	RMB600 million	5,717,322	808,675	489,687	(21,955)	69,299
Shenzhen Zhongxing Microelectronics Technology Company Limited	Subsidiary	Communications and related equipment manufacturing	Design, production and sales of integrated circuits	RMB100 million	785,576	257,953	195,314	92,994	100,953
PT. ZTE Indonesia	Subsidiary	Communications and related equipment manufacturing	Sales of communication products and related installation work	USD2.20 million	952,252	13,586	304,748	81,719	80,723
ZTE ICT Company Limited	Subsidiary	Communications and related equipment manufacturing	Design and sales of enterprise management hard/software products	RMB60 million	687,405	466,726	178,850	41,553	81,763
ZTE Group Finance Co., Ltd.	Subsidiary	Finance	Finance, guarantee, entrusted loans and related services	RMB1,000 million	3,285,441	1,130,187	91,767	51,889	44,763
北京中興網捷科技有限公司	Subsidiary	Communications services	Technical services and sales of communication products	RMB200 million	58,377	(31,583)	7,761	(46,890)	(46,911)
ZTE DO BRAZIL LTDA	Subsidiary	Communications	Manufacturing and sales of communication products	BRL6.50 million	1,152,953	(1,314,802)	238,017	(341,234)	(341,415)
ZTE (Thailand) Co.,Ltd.	Subsidiary	Communications and related equipment manufacturing	Sales of communication products and engineering services	THB50 million	1,215,240	46,996	514,816	(90,398)	(90,398)
ZTE (Malaysia) Corporation SDN. BHD	Subsidiary	Communications and related equipment manufacturing	Sales of communication products and engineering services	USD60,000	373,579	(139,613)	119,200	(113,569)	(113,570)

For information of other subsidiaries and principal investee companies, please refer to Note IV. 1. "Subsidiaries" and Note V. 13. "Long-term equity investments" to the financial report prepared in accordance with PRC ASBEs.

(5) Significant investments using funds other than issue proceeds

☐ Applicable ✓ N/A

12. Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in accumulated net profit as compared to the same period last year

✓ Applicable ☐ N/A

Net profit attributable to shareholders of the listed company for the period of January to September 2012 was RMB–1.7 billion. The Group expects to become profitable for the same period this year. For details please refer to "Positive Profit Alert" published by the Company on 21 August 2013.

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13. Explanatory statement from the Board of Directors and Supervisory Committee of the Company on the accountant's "qualified opinion" for the reporting period

☐ Applicable ✓ N/A

14. Explanatory statement from the Board of Directors and Supervisory Committee of the Company on changes and treatment of matters relating to the accountant's "qualified opinion" for the previous year

☐ Applicable ✓ N/A

15. Explanatory statement on changes in the accounting policies, accounting estimates, and auditing methods in comparison with the last annual financial report

☐ Applicable ✓ N/A

16. Explanatory statement on rectification of significant accounting errors for the reporting period requiring retrospective restatement.

☐ Applicable ✓ N/A

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

New tier-one subsidiaries established during the reporting period included 深圳市中興雲服務有限公司, 深圳市中興系統集成技術有限公司, 天津中興智聯科技有限公司; new tier-two subsidiaries established during the reporting period included 深圳市中興移動軟件有限公司, ZTE Myanmar Company Limited, 黃岡教育谷投資控股有限公司, Shenzhen ZTE SEECOM Tech Co., Ltd.; 深圳市興聯達科技有限公司; New tier-three subsidiaries established during the reporting period included PT ZTE JOYGOR INDONESIA and ZTE (MLVV) LIMITED.

The Company and ZTE HK (a wholly-owned subsidiary of the Company) entered into the "Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company" and "Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company," respectively, with Ocean Delight in respect of the disposal of an aggregate of 81% equity interests in ZNV held by the Company and ZTE HK in aggregate. The date of disposal of the equity interests was 16 January 2013 and ZNV was deconsolidated from the Group, as from January 2013.

18. Profit distribution or capitalisation of capital reserve

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the three preceding years; the profit distribution plan of the Company was formulated by the Board of Directors and approved by the General Meeting. Following a resolution on the profit distribution plan by the General Meeting, the Board of Directors should complete the distribution of dividend (or shares) within two months after the General Meeting; where the Board of Directors of the Company formulates a profit distribution proposal, the views of Independent Non-executive Directors should be sufficiently heard and an independent opinion should be furnished by the Independent Non-executive Directors; after the announcement of the profit distribution proposal is published in accordance with the law, the views and propositions of shareholders, the minority shareholders in particular, should be sufficiently heard. If the Board of Directors has not drawn up a cash profit distribution proposal, the reasons for not making the profit distribution and the use of funds not applied to profit distribution and retained at the Company should be disclosed in regular reports, and the Independent Non-executive Directors should furnish an independent opinion thereon.

No profit distribution or capitalisation of capital reserves was implemented by the Company in respect of 2012.

The distribution of the Company in the form of cash in the three preceding years (2010–2012) accounted for 110.18% of the annual average profit available for distribution in three preceding years, which was in compliance with Article 234 of the Articles of Association which states that the "accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realised in the three preceding years."

For details of the Company's adjustment of its profit distribution policy during the reporting period, please refer to the section headed "16. Profit distribution or capitalisation of capital reserve" under "(II) Discussion and analysis prepared under PRC ASBEs" in the Report of the Board of Directors of the 2012 Annual Report.

19. Establishment and implementation of the System of Registration of Owners of Inside Information

To regulate the Company's management of inside information, enhance confidential treatment of inside information and safeguard fairness in information disclosure, the Company formulated the System of Registration of Owners of Inside Information in accordance with provisions of relevant laws and regulations, which was considered and passed at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company held on 27 October 2009. The amendment of the system was considered and approved at the Thirty-second Meeting of the Fifth Session of the Board of Directors of the Company held on 22 August 2012 and published on http://www.cninfo.com.cn on 28 October 2009 and 23 August 2012, respectively. During the reporting period, the Company diligently implemented relevant provisions of the System of Registration of Owners of Inside Information and vigorously commenced work in inside information management.

No instances of owners of inside information trading in the Company's shares with the benefit of inside information during the reporting period have been identified. Neither the Company nor its relevant personnel had been subject to regulatory measures or administrative punishment by regulatory authorities as a result of alleged involvement in inside trading.

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20. Reception of Investors and Analysts, Communications and Press Interviews of the Company During the Reporting Period

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	January 2013	Hong Kong	Credit Suisse Securities investors' meeting	Customers of Credit Suisse Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2013	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	May 2013	Hong Kong	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	May 2013	Hong Kong	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2013	Shenzhen	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2013	Shanghai	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2013	Shenzhen	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2013	Shenzhen	China Merchant Securities investors' meeting	Customers of China Merchant Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2013	Hubei	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2013	Xiamen	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
Presentation of the Company	March 2013	Hong Kong	Results presentation	Analysts and investors	2012 Annual Report	Published announcements and regular reports
Company visits by investors				**Overseas Investors**		
	January to June 2013	Company	Verbal	SAC Capital, Central Asset, HIS, Waddell, BOCI, Orient Asset Management, Fuh Hwa Securities Investment Trust, Pine River, Haitong International, New China Asset Management, Ping An Asset Management, PICC, Everbright International, Barclays, Goldman Sachs, GIC, Morgan Stanley Asset Management, Capital, Wellington, Manulife Investments, Jupiter Asset Management, Financiere de l'Echiquier, Topeka Capital Markets, Guotai Junan (Hong Kong), Resona Bank, Value Partner, Keywise Capital, China Merchants Securities (Hong Kong), Shennong Capital Management, 萬利富投資, Pangea Capital Management, Da Cheng International Asset Management, 方圓投資, Vision Finance Asset Management, Harris Associates, Credit Suisse, Alliancebernstein, Brookside Capital, ISI Group, Fidelity, Allianz Global Investors Taiwan Limited, Atlantis, Bosheng Capital, China Everbright, Citic Securities, FV Capital, HFT Fund, Industrial Securities Asset Management, JK Capital Limited, Light Horse Asset Management, Pedder Street Investment, Prudence Investment Management, RAYS Capital Partners Limited, RBC Wealth Management, SWS Asset Management (Asia) Ltd, Uni-President Assets Management Corporation, ISI Group, Neuberger Berman, Discovery Capital, WHV Capital	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic Investors		
	January to June 2013	Company	Verbal	Zeng Haiyi (曾海藝), Fullgoal Fund, CITIC Asset Management, GF Asset Management, Galaxy Securities, CCB Principal Asset Management, 民生通惠, Vista View Capital, Qianhai Life Insurance, Changjiang Securities, China Merchant Securities, Guotai Junan, Guosen Securities, SAMSUNG Asset Management, Shenzhen KWT, StarRock Investment, Guotai AMC, Rongtong Fund, E Fund, Greenwoods Asset, Industrial Securities, CITIC Securities, Orient Securities, Soochow Asset Management, UBS SDIC, Fortune SG, Century Securities, Great Wall Fund Management, Huaxi Securities, China AMC	Day-to-day operations of the Company	Published announcements and regular reports

(III) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH HKFRSs

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

Operating revenue

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

	For the six months ended 30 June 2013		For the six months ended 30 June 2012	
Product segment	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carriers' networks	**19,050.5**	**50.7%**	21,279.6	49.9%
Terminals	**12,460.9**	**33.2%**	14,248.1	33.4%
Telecommunication software systems, services and other products	**6,064.8**	**16.1%**	7,114.2	16.7%
Total	**37,576.2**	**100.0%**	42,641.9	100.0%

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

Unit: RMB in millions

	For the six months ended 30 June 2013		For the six months ended 30 June 2012	
Region	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**18,821.5**	**50.1%**	20,884.9	49.0%
Asia (excluding the PRC)	**6,327.1**	**16.8%**	8,010.0	18.8%
Africa	**3,034.9**	**8.1%**	3,923.3	9.2%
Europe, Americas and Oceania	**9,392.7**	**25.0%**	9,823.7	23.0%
Total	**37,576.2**	**100.0%**	42,641.9	100.0%

The Group reported RMB37,576.2 million in operating revenue for the first six months of 2013, an 11.9% decrease as compared to the same period last year. Our domestic revenue decreased by 9.9% to RMB18,821.5 million as compared to the same period last year. Analysed by product, year-on-year decline was reported for carriers' networks, terminals, telecommunication software systems, services and other products, contributing to a declining trend in the Group's total operating revenue for the first six months of 2013 as compared to the same period last year.

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The year-on-year decrease in operating revenue from the Group's carriers' networks reflected mainly the decrease in operating revenue derived from wireless communication systems in the domestic market, optical communications systems and data products in the international market and wireline switch and access products in the domestic market.

The year-on-year decrease in operating revenue from the Group's terminals reflected mainly the decrease in operating revenue derived from data cards and GSM handsets in the domestic and international markets.

The year-on-year decrease in operating revenue from the Group's telecommunication software systems, services and other products reflected mainly the decrease in operating revenue derived from service products in the domestic and international markets.

Cost of sales and gross profit

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

Unit: RMB in millions

	For the six months ended 30 June 2013		For the six months ended 30 June 2012	
Product segment	**Cost of sales**	**As a percentage of product segment revenue**	Cost of sales	As a percentage of product segment revenue
Carriers' networks	**12,887.5**	**67.6%**	15,020.8	70.6%
Terminals	**10,551.1**	**84.7%**	11,883.8	83.4%
Telecommunication software systems, services and other products	**4,486.5**	**74.0%**	5,236.1	73.6%
Total	**27,925.1**	**74.3%**	32,140.7	75.4%

Unit: RMB in millions

	For the six months ended 30 June 2013		For the six months ended 30 June 2012	
Product segment	**Gross profit**	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**6,163.0**	**32.4%**	6,258.8	29.4%
Terminals	**1,909.8**	**15.3%**	2,364.3	16.6%
Telecommunication software systems, services and other products	**1,578.3**	**26.0%**	1,878.1	26.4%
Total	**9,651.1**	**25.7%**	10,501.2	24.6%

Cost of sales of the Group for the first six months of 2013 decreased by 13.1% to RMB27,925.1 million as compared to the same period last year. The Group's overall gross profit margin for the first six months of 2013 was 25.7%, which was 1.1 percentage points higher as compared to the same period last year, reflecting mainly improved gross profit margin of products for carriers' networks which accounted for a substantial portion of the Group's revenue.

Cost of sales for the Group's carriers' networks for the first six months of 2013 amounted to RMB12,887.5 million, a decrease of 14.2% as compared to the same period last year. Gross profit margin of carriers' networks was 32.4% versus 29.4% for the same period last year. The increase in gross profit margin of carriers' networks mainly reflected higher gross profit margin for optical communications systems and data communication systems in the domestic market and wireless communication systems products in the domestic and international markets, which accounted for a substantial portion of the Group's revenue.

Cost of sales for the Group's terminals for the first six months of 2013 amounted to RMB10,551.1 million, a decrease by 11.2% as compared to the same period last year. Gross profit margin for the Group's terminals was 15.3%, versus 16.6% for the same period last year. The gross profit margin for the terminals declined in tandem with lower gross profit margins for CDMA handsets and 3G handsets in the domestic market, which accounted for a substantial portion of the Group's revenue.

Cost of sales for the Group's telecommunication software systems, services and other products for the first six months of 2013 amounted to RMB4,486.5 million, a decrease by 14.3% compared to the same period last year. The relevant gross profit margin was 26.0% versus 26.4% for the same period last year. The slight decrease in gross profit margin for telecommunication software systems, services and other products mainly reflected the decrease in gross profit margins for service products in the international markets and domestic visual and network terminals products, which accounted for a substantial portion of the Group's revenue.

Other income and gains

Other income and gains of the Group for the first six months of 2013 amounted to RMB2,685.2 million, representing an increase of 56.7% compared to RMB1,713.5 million for the first six months of 2012 mainly attributable to investment income arising from disposal of equity interests in ZNV during the period.

Research and development costs

The Group's research and development costs for the first six months of 2013 decreased by 9.9% to RMB3,627.6 million from RMB4,025.4 million for the first six months of 2012, attributable mainly to strengthened cost control by the Company. Research and developments costs represented 9.7% of the operating revenue, a slight increase as compared to 9.4% for the first half of 2012.

Selling and distribution costs

The Group's selling and distribution costs for the first six months of 2013 decreased by 12.3% to RMB4,740.2 million from RMB5,402.3 million for the first half of 2012, or by 0.1 percentage points to 12.6% from 12.7% for the first half of 2012 as a percentage of operating revenue, reflecting mainly the decrease in human resources expenses and travelling expenses.

Administrative expenses

Administrative expenses of the Group for the first six months of 2013 decreased by 5.9% to RMB1,084.7 million, as compared to RMB1,153.3 million for the first half of 2012, but slightly increased to 2.9% from 2.7% for the first half of 2012 as a percentage of operating revenue, reflecting mainly the Company's stronger efforts in cost management.

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Other expenses

Other expenses of the Group for the first six months of 2013 increased by 229.5% to RMB1,346.3 million, as compared to RMB408.6 million for the first half of 2012, reflecting mainly the increase in losses as a result of exchange rate volatility and the increase in bad debt provisions for the period.

Profit from operating activities

The Group's profit from operating activities for the first six months of 2013 increased by 25.5% to RMB1,537.5 million, as compared to RMB1,225.1 million for the first half of 2012, while the operating profit margin also increased by 1.2 percentage points to 4.1% from 2.9% for the first half of 2012. Such increase was attributable mainly to investment income arising from the disposal of equity interests in ZNV during the period coupled with strengthened cost control.

Finance costs

Finance costs of the Group for the first six months of 2013 increased by 36.4% to RMB766.1 million compared to RMB561.5 million for the first half of 2012, reflecting mainly the increase in loan interest expense in tandem with additional bank loans by the Group to meet working capital requirements.

Tax

The Group's income tax expense for the first six months of 2013 was RMB412.5 million, which was 56.5% higher as compared to RMB263.6 million for the first half of 2012, reflecting mainly increased profit reported by certain of the Group's subsidiaries.

Profit attributable to non-controlling interests

The Group's profit attributable to non-controlling interests for the first six months of 2013 amounted to RMB19.2 million, a decrease by 86.9% as compared to RMB147.1 million for the first half of 2012. Non-controlling interests decreased from 37.5% for the first six months of 2012 to 5.8% for the first six months of 2013 as a percentage of profit before non-controlling interests, reflecting mainly the deconsolidation of certain subsidiaries with a higher level of non-controlling interests, which were accounted for on a consolidated basis for the same period of 2012, following the disposal of their equity interests in the second half of 2012, as well as the year-on-year reduction of non-controlling interests in certain subsidiaries.

Other comprehensive income

Other comprehensive income of the Group for the first six months of 2013 decreased by 113.8% to RMB–99.8 million, as compared to RMB724.6 million for the first half of 2012. The change reflected mainly the increase in other comprehensive income resulting from value appreciation of properties for self-use after valuation upon reclassification to investment properties for the same period last year and the absence of such item for the period.

Debt-equity ratio

The Group's debt-equity ratio for the first six months of 2013 was 61.0%, an increase by 2.9 percentage points as compared to 58.1% for the first half of 2012. The increase was mainly attributable to the decrease in the Company's reserves owing to operating losses incurred by the Company in the second half of 2012.

Cash flow data

Unit: RMB in millions

	For the six months ended 30 June 2013	For the six months ended 30 June 2012
Net cash outflow from operating activities	**(5,660.6)**	(3,781.1)
Net cash outflow from investing activities	**(419.8)**	(1,682.8)
Net cash inflow (outflow) from financing activities	**(707.0)**	5,408.6
Net increase/(decrease) in cash and cash equivalents	**(6,787.4)**	(55.3)
Cash and cash equivalents at the end of the period	**15,915.7**	20,543.5

Operating activities

The Group had a net cash outflow from operating activities of RMB5,660.6 million for the first six months of 2013 compared to RMB3,781.1 million for the first half of 2012, reflecting year-on-year decrease of cash inflow from sales of goods and provision of services by RMB5,109.4 million, decrease of cash inflow from tax rebates by RMB204.8 million, decrease of cash outflow paid for purchases of goods and services by RMB1,813.1 million, decrease of cash outflow for payments made to and on behalf of employees by RMB687.8 million, decrease in tax payments by RMB596.2 million, decrease of other cash payments relating to operating activities by RMB742.0 million, coupled with increase of cash outflow for dividend payments or interest repayments by RMB489.8 million.

Investing activities

The net cash outflow from the Group's investing activities for the first six months of 2013 was RMB419.8 million compared to a net cash outflow of RMB1,682.8 million for the first half of 2012, reflecting mainly cash received by the Company for the disposal of equity interests in ZNV during the period.

Financing activities

The Group's net cash outflow from financing activities for the first six months of 2013 was RMB707.0 million, compared to net cash inflow of RMB5,408.6 million for the first half of 2012, reflecting mainly the repayment of Bonds cum Warrants issued in 2008 in the amount of RMB4,000.0 million for the first six months of 2013, versus the receipt of RMB6,000.0 million as proceeds from the issue of 3-year corporate bonds by the Company during the same period last year.

Indebtedness

Unit: RMB in millions

Item	**As at 30 June 2013**	As at 31 December 2012
Secured bank loans	**1,141.3**	1,805.0
Unsecured bank loans	**20,377.3**	17,614.9

Unit: RMB in millions

Item	**As at 30 June 2013**	As at 31 December 2012
Short-term bank loans	**13,239.7**	18,429.9
Long-term bank loans	**8,278.9**	990.0

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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 the first half of 2013 increased by RMB2,098.7 million as compared to the balance as at 31 December 2012 and were mainly applied to fund repayments of Bonds cum Warrants. The reasons for the change in the structure of the long- and short-term debts are due to the transfers of the Company's syndicated loans into short-term bank loans as a result of the failure to comply with the undertakings of financial benchmarks at the end of 2012. As an exemption letter had been received during the period, the syndicated loans were transferred back to long-term bank loans.

Capital Commitments

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

Unit: RMB in millions

Item	As at 30 June 2013	As at 31 December 2012
Land and buildings:		
Contracted, but not provided for	**281.1**	484.4
Investment in associates:		
Contracted, but not provided for	**60.8**	41.7
Land and buildings:		
Authorised, but not contracted	**21,514.7**	21,600.4

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2012 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

(IV) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2013 AND RISK EXPOSURES

1. Business Outlook for the Second Half of 2013

Looking ahead to the latter half of 2013, the large-scale deployment of 4G networks, particularly the large-scale construction of TD-LTE networks in China, will channel in a new cycle of investment for the telecommunications industry in the wireless network sector. In connection with wireline networks, the construction of broadband networks around the world will continue to advance with the support of increasing consumers' demand for network bandwidth, national broadband strategies adopted by various countries and technology upgrades taking place in relevant industries, while development opportunities will also abound for transmission networks deployed to complement the wireless and wireline networks. The smart terminal is expected to sustain relatively fast growth as a mainstay product benefitting from the upgrade of wireless network bandwidth and the rapid development of the Mobile Internet. In the meantime, comprehensive and innovative solutions and stable long-term business relationships will be crucial as global carriers strive to deal with revolutionary changes in the industry. In this regard, the Group has already developed globally competitive solutions and entered into business partnerships with mainstream global carriers.

In the second half of 2013, the Group will continue to carry out product innovation and solution operations with an emphasis on mainstream products. We will enhance our R&D efficiency and implement in greater depth our strategy on populous nations and mainstream carriers, focusing on markets in which we claims dominance while vigorously developing business in the government and enterprise services sectors. The Group will exercise resource management and control, refine cost management and enhance operating efficiency through persistent implementation of the operations settlement system.

2. Risk Exposures

(1) *Country risk*

Under the complicated global economic and political environment, 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 about 10% of our annual sales revenue. While the Group has adopted stringent measures to protect its intellectual property rights, there can be no assurance that there will not be any conflicts in intellectual property rights with other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group.

(3) *Exchange rate risk*

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

(4) *Interest rate risk*

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

(5) *Credit risk*

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business development 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 management and control systems to mitigate the aforesaid impact.

Material Matters

(I) CORPORATE GOVERNANCE

1. The Company's corporate governance is in compliance with relevant requirements of the CSRC

The Company has been improving its corporate governance regimes and structures, regulating corporate operations and optimising internal control structures on an ongoing basis in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of the CSRC. During the reporting period, the general meeting, Board of Directors and Supervisory Committee were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

The Company conducted with focused efforts the following internal control work in the first half of 2013 to ensure the implementation of internal control regulation and the publication of the internal control self-assessment report and the internal control audit report consistently in accordance with the "Basic Rules for Corporate Internal Control" (《企業內部控制基本規範》) and "Corporate Internal Control Supplementary Guide" (《企業內部控制配套指引》) and to enhance the Company's internal control standards, in accordance with requirements of the "Notice on the Publication of the Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引通知》) issued by five ministries and commissions including the Ministry of Finance of the PRC and the CSRC, the "Notice on Procuring Work relating to Trial Internal Control Rules for Shenzhen Listed Companies" (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by Shenzhen CSRC:

During the first quarter of 2013, the internal control development project team of the Company reviewed and estimated the implementation of the Company's internal control development in 2012, rectify any deficiencies identified and output relevant documentation. For details of internal control development in the first quarter, please refer to the section headed "3. Material Matters — 3.7 Development of internal control in the first quarter of 2013" in the 2013 first quarterly report of the Company.

Progress of the implementation of internal control during the second quarter of 2013 was as follows:

(1) To strengthen the internal control and enhance the corporate governance standards of the Company, the Company set up an internal control work steering group with the Chairman as group leader and the President as deputy group leader. Internal control operations at the headquarters were led by the Internal Control and Audit Department. Internal control operations at various business units were led by the internal control work groups of the respective business units. A three-tier internal control structure has been established as a result, upon which a three-tier internal control mechanism has been established to improve internal control development, self-assessment and internal control audit.

The Internal Control and Audit Department made reports on the progress of the Company's internal control to the Audit Committee of the Company on 26 April 2013 and 30 May 2013, respectively, and carried out the requirements of the Audit Committee on internal control operations.

During the second quarter of 2013, the internal control work steering group of the Company held three corporate-level internal control work meetings to determine the overall substance of internal control operations and conduct specific internal control discussions in respect of personnel management and investment management for subsidiaries. Specific plans have been formulated for implementation.

(2) Key internal control inspection and testing items such as strategic management, risk management and investments by subsidiaries were completed, and plans for the optimisation of internal control were formulated and implemented to improve processes and key control points. Internal control optimisation plans were formulated and implemented by personnel management departments in response to internal control inspection and testing in respect of personnel management matters completed in the first quarter of 2013.

(3) The Internal Control and Audit Department confirmed for the internal control manual optimisation plan and organised the streamlining of internal control manuals at all business units to identify key control points for principal businesses on all fronts, improve processes and exercise risk controls.

(4) Management recommendations proposed by independent audit institutions engaged by the Company were implemented by the business units.

(5) Preliminary work was started to introduce IT system tools for internal control based on requirements of the Company's internal control development operations.

2. During the period from 1 January to 30 June 2013, the Company fully complied with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules.

3. Securities Transactions by Directors and Supervisors

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

4. The Audit Committee

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2013.

(II) IMPLEMENTATION OF THE 2012 PROFIT DISTRIBUTION PLAN OF THE COMPANY

The Company does not propose any profit distribution or share capital increase by way of transfer from reserves for 2012.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2013

The Company does not propose any profit distribution or share capital increase by way of transfer from reserves for the six months ended 30 June 2013.

Material Matters

(IV) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material Litigation and Arbitration

There was no material litigation or arbitration of the Group occurring during the reporting period. Details of the progress of immaterial litigation and arbitration proceedings occurring prior to and other litigation and arbitration proceedings occurring during the reporting period are set out in the following:

(1) In August 2005, an Indian consultant firm issued an arbitration notice to the Company to claim indemnity for a total amount of approximately USD1.714 million in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million.

The case was heard before an arbitration court formed by International Chamber of Commerce ("ICC") in Singapore during 25–28 July 2008. The Company was represented at all arbitration sessions. On 23 July 2010, the arbitration court issued its arbitration award on the arbitration fees, legal fees and travel expenses relating to the case and ruled that the Company should pay a total of USD1.323 million to the said consultant firm. Subsequent to the consultant firm's application to the High Court of Delhi in India on 28 September 2010 for the enforcement of the arbitration award, the Company filed an objection to the enforcement of the arbitration award on the grounds that the said consultant firm no longer carried the status of a corporate. On 23 September 2011, the High Court of Delhi in India ruled to reject the said consultant firm's application for the enforcement of the arbitration award. It also ruled that the said consultant firm may re-submit its application for the enforcement of the arbitration award after the restoration of its status as a corporate. On 30 April 2013, the High Court of Delhi in India received the application for the enforcement of arbitration award re-submitted by the said consultant firm, and the case is currently pending judgement by the court.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(2) On 28 April 2011, the Company and ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company, received a statement of claim from the District Court of Paris, France, according to which a lawsuit has been filed by Huawei Technologies Co., Ltd. ("Huawei"), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. In respect of the patent which was the subject of Huawei's litigation and other related patents of the same class, ZTE France filed a lawsuit with the District Court of Paris, France to claim the invalidity of the patent. The aforesaid two cases have been merged for trial purposes. On 28 March 2013, the District Court of Paris ruled to reject all litigation claims of Huawei and ordered Huawei to pay a compensation of EUR100,000 to the Company and ZTE France. At the same time, Huawei's patent which was the subject of the litigation was ruled "invalid" on the grounds of "lack of creativity."

On 9 May 2011, ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of "labelled data cards" awarded by the District Court of Hamburg, Germany based on an application by Huawei. For details please refer to the "Announcement on Litigation" of the Company dated 12 May 2011. In response to the aforesaid provisional injunction order, ZTE Deutschland had filed a dissent with the District Court of Hamburg, Germany. On 1 October 2011, the Company received a ruling of the District Court of Hamburg, Germany in favor of Huawei's application for the said provisional injunction order. On 27 October 2011, ZTE Deutschland appealed to the District High Court of Hamburg, Germany and the case is currently pending trial. Such provisional injunction order does not have any impact on the current business of the Company. On 27 June 2011, ZTE Deutschland received a statement of claim served by the District Court of Hamburg, Germany, pursuant to which Huawei officially filed a lawsuit of trademark infringement in respect of "labelled data cards" with the court. On 25 July 2011, ZTE Deutschland submitted a defense to the court. On 23 November 2011, the court ruled to suspend the litigation procedure for the case of trademark infringement and to arrange hearing pending judgement in respect of the appeal against the provisional injunction order.

In May 2011 and May 2012, ZTE Deutschland and the Company respectively received statements of claim filed by Huawei to the court of Dusseldorf, Germany, claiming that ZTE Deutschland and the Company had infringed 4 of its patents. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 21 March 2013, the court rejected all allegations of Huawei in connection with the infringement on its EP 2033335 patent by the Company's LTE systems and terminals. Huawei filed an appeal with the Court of Appeal on 22 April 2013 and applied to the Court of Appeal on 3 May 2013 for the suspension of trial of this case. As of now, the case for the other three patents are pending court trial or judgement.

In May 2012, ZTE Deutschland received statements of claim filed by Huawei to the court of Mannheim, Germany, claiming that ZTE Deutschland had infringed its patent. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 15 March 2013, the court of Mannheim, Germany made a judgement to reject all allegations of Huawei in connection with the infringement by the LTE terminals of ZTE Deutschland, but ruled that the LTE systems sold by ZTE Deutschland in Germany had infringed on "a derived encryption function" of the said patent. In respect of the infringement ruled by the judgement, ZTE Deutschland and Huawei each filed an appeal to the High Court of Karlsruher, Germany on 19 April 2013. The case is currently under court trial. As such patent is not used in the relevant products currently sold by the Company, the litigation will not have any substantial impact on the local sales of the Company.

On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. ("ZTE Hungary"), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of Huawei's litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patent. As at the end of the reporting period, the court ruled to suspend trial in respect of all of the 4 patents under litigation.

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In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of its patent rights or trademarks, Huawei also filed a lawsuit with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court") in 2011 alleging the Company's infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay an amount of compensation. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei's infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay an amount of compensation. As of now, trials of the aforesaid domestic cases have commenced. Shenzhen Intermediate Court has ruled to reject one of the aforesaid applications by Huawei for lawsuit on infringements of patent rights and such ruling has taken effect.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(3) On 29 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA a wholly-owned subsidiary of ZTE. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States).

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The Company has appointed an independent legal counsel to conduct active defending in respect of the said case. As of now, there has not been any substantial progress in this case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(4) On 9 December 2011, the Company and ZTE USA received a petition for arbitration filed by four USA companies and a natural person named ERIC STEINMANN (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that the Company and ZTE USA had committed acts of breach of contract and fraud, and demanded cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court. As the arbitration procedures of the United States do not impose any limit to the claim amount that an applicant may demand, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

On 12 October 2012, the Company and ZTE USA filed a defense and a counter-claim with ICDR, alleging that CLEARTALK had committed breach of contract, fraud and abuse of litigation rights and had seriously compromised the interests of the Company. On 14 June 2013, ICDR stated its support for the motion submitted by the Company and ZTE USA requesting rejection of ERIC STEINMANN's application for arbitration.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(5) In November 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB92,744,200). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB245 million). The Company has appointed an independent legal counsel to conduct active defense in respect of the said case.

Based on the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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(6) On 3 January 2012, ZTE Brazil received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (equivalent to approximately RMB221 million). On 20 January 2012, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provided that the agreement should apply to ICMS tax incurred prior to May 2009, ZTE Brazil was not required to pay further ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 29 November 2012, the tax bureau of Sao Paulo State issued a notice that ZTE Brazil had paid the ICMS or made a remedial payment thereof and recommended suspension of execution of the notice of administrative penalty. The case is pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB285 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements. On the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State. ZTE Brazil also pointed out that the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

Note: The book exchange rate of the Company as at 30 June 2013 was adopted, namely BRL1: RMB2.9580.

2. GENERAL MEDIA QUERIES

☐ Applicable ✓ N/A

(V) THE COMPANY WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE REPORTING PERIOD

(VI) ASSET TRANSACTIONS

The Group was not engaged in any material acquisition, swap or business merger commencing or subsisting during the year. Details of immaterial asset disposal disclosed by the Group are as follows:

1. Disposal of assets

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of execution of agreement	Transaction price	Gain/loss from disposal	Net profit contributions of the asset disposal to the listed company as a percentage of total net profit	Pricing principle for asset disposal	Whether a connected transaction	Relationship with the counterparty (as applicable to connected transactions)	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Domestic announcement date and index
Ocean Delight	81% interests in ZNV	28 December 2012	USD equivalent of RMB1,292 million	85,256.65	275.01%	The pricing of the equity transfer was determined by reference to the then financial and operating conditions of ZNV.	No	N/A	Yes	Yes	29 December 2012 Announcement No. 201262 "Announcement of Disposal of Equity Interests in Shenzhen ZNV Technology Co., Ltd."

Note 1: The connected transaction mentioned above is defined under the Shenzhen Listing Rules and other domestic securities regulatory provisions.

Note 2: Information set out under "Whether titles to asset involved have been transferred in full" and "Whether creditors' rights and debts have been transferred in full" represented status as at the date of this report.

Note 3: Total net profit denotes the total net profit attributable to shareholders of the listed company.

2. Statement relating to the disposal of assets

To meet the requirements of the Company's strategic development and to facilitate the development of the Company's principal business, the Company and ZTE HK (a wholly-owned subsidiary of the Company) respectively entered into the "Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company" and "Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company" with Ocean Delight on 28 December 2012, pursuant to which the Company and ZTE HK disposed of an aggregate of 81% equity interests in ZNV held directly or indirectly by the Company to Ocean Delight.

The said equity transfer did not constitute a connected transaction or a significant asset reorganisation of the Company and was considered and approved at the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012. The said equity transfer will result in investment income for the Company in the region of RMB820 million to RMB880 million in 2013, which will provide additional working capital for the Company to support the development of its principal businesses. For details please refer to the "Discloseable Transaction-Disposal of 81% Equity Interests in Shenzhen ZNV Technology Co., Ltd." published on 28 December 2012.

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3. **Progress of the event since the publication of the announcement of asset disposal and the impact on the operating results for and financial conditions of the reporting period**

   The two parties to the transaction have completed the settlement of and related payments for the equity interests in accordance with the "Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company" and "Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company." Investment income of approximately RMB850 million was recognised by the Company during the reporting period.

(VII) REPURCHASE AND CANCELLATION OF RESTRICTED SHARES NOT QUALIFIED FOR UNLOCKING

In accordance with the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) of the Company ("Phase I Share Incentive Scheme"), the Company has granted a designated volume of restricted A share quotas ("Subject Shares") to the Scheme Participants. As at 24 December 2012, all Subject Shares qualified for unlocking had been listed for trading, while 2,536,742 shares remained in lock-up due to non-fulfillment of unlocking conditions stipulated under the Phase I Share Incentive Scheme, such as resignations or non-fulfillment of benchmarks in performance appraisals by Scheme Participants. In accordance with the provisions of the Phase I Share Incentive Scheme, the Company has proposed to repurchase and cancel such shares at a price equivalent to the cost paid by the Scheme Participants for the subscription of Subject Shares. For details please refer to the "Announcement of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking" published by the Company on 8 May 2013.

The aforesaid matter was considered and approved at the Third Meeting of the Sixth Session of the Board of Directors of the Company held on 8 May 2013 and the Second Extraordinary General Meeting of 2013 held on 28 June 2013. For details please refer to the "Announcement of Resolutions of the Third Meeting of the Sixth Session of the Board of Directors" and "Announcement of Resolutions of the Second Extraordinary General Meeting of 2013" published on 8 May 2013 and 28 June 2013, respectively. The aforesaid matter was considered and passed at the first meeting of holders of 2012 corporate bonds (tranche 1) of ZTE Corporation of 2013 held on 31 July 2013.

In accordance with the provisions of the Company Law and other pertinent laws and regulations, the Company has advised all creditors that the repurchase and cancellation of restricted shares will result in the reduction of the Company's registered capital. For details please refer to the "Overseas Regulatory Announcement" published on 28 June 2013 and the "Announcement of Capital Reduction" published in Shenzhen Evening News on 29 June 2013.

The Company is currently is processing the formalities for the repurchase and cancellation of restricted shares. Once the processing is completed, the Company will publish an announcement in a timely manner to disclose the matter.

(VIII) INFORMATION ON THE SHARE OPTION INCENTIVE SCHEME OF THE COMPANY

In order to further improve the corporate governance structure of the Company, bolster its incentive mechanism, strengthen the sense of responsibility and mission on the part of the management team and key employees for the sustainable and healthy development of the Company, and ensure the achievement of the Company's development objectives, the Company has formulated the "ZTE Corporation Share Option Incentive Scheme (Draft)". Following the consideration and approval of the "ZTE Corporation Share Option Incentive Scheme (Draft)" at the Sixth Meeting of the Sixth Session of the Board of Directors held on 22 July 2013, the Company has submitted the "ZTE Corporation Share Option Incentive Scheme (Draft)" to the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and the CSRC in accordance with pertinent provisions for examination. On 20 August 2013, the Company was notified that the opinion of the State-owned shareholder of the Company in respect of the Company's implementation of the share option incentive scheme had been approved by the SASAC by way of the "Reply to the Opinion on the Filing of the ZTE Corporation Share Option Incentive Scheme" (Guo Zi Ting Fen Pei [2013] No. 418) (《關於中興通訊股份有限公司股票期權激勵計劃備案有關意見的覆函》(國資廳分配[2013]418號)) and had been filed by the SASAC. The Company's Share Option Incentive Scheme (Draft) is pending filing with CSRC with no objection, to be followed by consideration by the general meeting. For details of the Share Option Incentive Scheme, please refer to the "(1) Proposed adoption of A-Share Option Incentive Scheme and Proposed Grant thereunder AND (2) Resumption of Trading" published by the Company on 22 July 2013.

(IX) OVERVIEW OF THE BONDS CUM WARRANTS OF THE COMPANY

The Company issued 40,000,000 bonds cum warrants amounting to RMB4 billion ("Bonds cum Warrants") in total on 30 January 2008. The bonds have a nominal value of RMB100 each and a total issue amount of RMB4 billion. A coupon interest rate of 0.8% per annum applies to the issue of the Bonds cum Warrants, accruable from the issue date (30 January 2008).

Four interest payments, each with an aggregate amount of RMB32,000,000, were made in respect of the bonds on 2 February 2009, 1 February 2010, 31 January 2011 and 30 January 2012 respectively. The bonds matured on 30 January 2013 and the total amount of principal and interest paid was RMB4,032,000,000. The liability for guarantee of China Development Bank Corporation, the guarantor of the Bonds cum Warrants of the Company, has been released.

The ultimate subscribers were issued 1.63 Warrants in respect of each Bond cum Warrant and a total of 65.20 million warrants were listed on the Shenzhen Stock Exchange on 22 February 2008. The warrants, coded "中興 ZXC1", was valid from 22 February 2008 to 21 February 2010. The last trading day for "中興 ZXC1" was 5 February 2010 (Friday) and trading has been terminated with effect from 8 February 2010 (Monday). Holders of "中興 ZXC1" were entitled to exercise their rights during the last 10 trading days of the valid period, namely on trading days during the period from 1 February 2010 to 12 February 2010, both dates inclusive. The adjusted exercise of the warrant on an ex-right and ex-dividend basis was RMB42.394 per share and the adjusted exercise ratio was 1:0.922, namely the holder of 1 "中興 ZCX1" Warrant was entitled to purchase 0.922 A share of the Company at a price of RMB42.394 per share during the exercise period.

As at the close of trading on 12 February 2010, a total of 23,348,590 "中興 ZXC1" Warrants had been exercised, accounting for 35.81% of the total number of warrants prior to the current exercise. A total of 41,851,410 "中興 ZXC1" Warrants had not been exercised and had lapsed. Following the exercise of the "中興 ZXC1" Warrants, the Company's A share capital increased by 21,523,441 shares, raising proceeds of approximately RMB912 million. For details, please refer to the "Announcement on the Results of the Exercise of the "中興 ZXC1" Warrants and Changes in Shareholding" published by the Company on 23 February 2010.

For details of the Bonds cum Warrants of the Company, please refer to the section headed "Material Matters (VI) Information on the Bonds cum Warrants Issued by the Company" in the 2012 Annual Report.

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(X) INFORMATION ON THE CORPORATE BONDS OF THE COMPANY

To meet the Company's working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary Meeting of 2012 of the Company held on 11 April 2012 and approval by the CSRC by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The bonds were issued at a price of RMB100 each with a coupon interest rate was 4.20% for a term of 3 years. The issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors. Corporate bonds under the Issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code "112090" and the abbreviated bond name "12中興01".

The corporate bond interest payment for 2013 was completed on 13 June 2013 and the total amount of interest payment made was RMB252 million. For details please refer to the "Overseas Regulatory Announcement" published by the Company on 3 June 2013.

As at 30 June 2013, there were 199 holders of corporate bonds of the Company, the top ten of which were as follows:

No.	Name of bond holders	Number of bonds held	Bond holding ratio
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
2	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	5,900,000	9.83%
5	China Construction Bank — Penghua Harvest Bond Fund	1,800,000	3.00%
5	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	1,800,000	3.00%
7	National Social Insurance Fund 204 Portfolio	1,799,821	3.00%
8	China Construction Bank — Bosera Stable Yield Fixed-term Open-ended Bond Fund	1,325,030	2.21%
9	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Fund	1,100,002	1.83%
10	Agricultural Bank of China Limited	1,017,454	1.70%

(XI) PROGRESS OF THE FACILITY AGREEMENT

On 8 July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a facility agreement with a total amount of USD900 million with 10 banks including Bank of China (Hong Kong) Limited ("BOCHK") (the "Facility Agreement"), in respect of which the Company entered into a guarantee letter providing guarantee for this agreement.

Pursuant to the Facility Agreement and the guarantee letter signed by the Company, the lending banks have imposed certain restrictions in relation to certain financial indicators of the Group. If the Group's financial indicators fail to meet the requirements under the Facility Agreement and the guarantee letter, the lending banks shall have the right to demand early loan repayment from ZTE HK. As at 31 December 2012, the Group was not in compliance with the requirement of the Facility Agreement in respect of one financial indicator. ZTE HK has applied to the lending banks for exemption from early loan repayment, and such application for exemption will take effect when the approval of no less than 2/3 of facility amount is granted. As at 27 March 2013, an exemption letter had been obtained from BOCHK and any risk of ZTE HK being required to honour early loan repayment had been removed.

(XII) SIGNIFICANT CONNECTED TRANSACTIONS UNDER APPLICABLE LAWS AND REGULATIONS OF THE PRC

1. Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represented connected transactions that reached the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of various products such as cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Prices at which the Group made purchases from the connected parties were not higher than prices at which similar products of comparable quantity are sold to other users by the connected parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms.	Cabinets and related accessories: RMB1–RMB30,000 per unit; and cases and related accessories: RMB1–RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000–RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000–50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200–2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3–30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5–50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01–5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5–100 per piece depending on measurement, level of process sophistication and materials used.	22,984.7	1.10%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party		Communication antenna: RMB100–RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100–9,999 per unit depending on technical parameters and functional features; Feeder: RMB1–200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1–100 per piece depending on technical parameters and functional features	14,824.7	0.71%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Huatong Technology Company Limited	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450–680 per head/day; Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; Junior engineer at a price ranging from RMB230–320 per head/day; Technician at a price ranging from RMB190–230 per head/day.	817.6	0.04%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited	A company the majority of board members of which can be controlled by another company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450–680 per head/day; Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; Junior engineer at a price ranging from RMB230–320 per head/day; Technician at a price ranging from RMB190–230 per head/day.	236.9	0.01%	Tele-transfer	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of hotel service	The purchase of hotel services by the Company from the connected party		Single room: RMB240–380/night; Double room: RMB240–380/night; Suite: RMB500–600/night	1,428.5	0.06%	Tele-transfer	N/A	27 June 2012	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"

Material Matters

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Development Company Limited	A company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m. by the Company from the connected party		Monthly rent of RMB115/sq.m. and changed to RMB130 per month with effect from 18 April 2013 (property management undertaken by ZTE and no management fees are payable)	2,135.5	6.94%	Tele-transfer	N/A	28 April 2010 29 December 2012	Announcement No. 201051 "Announcement on Connected Transactions" Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Chongqing Zhongxing Development Company Limited	Subsidiary of the Company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party		Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and cafeteria respectively and monthly management fee of RMB2.5/sq.m.	439.0	1.43%	Tele-transfer	N/A	14 December 2011	Announcement No. 201153 "Announcement on Connected Transactions"
Zhongxing Hetai or its subsidiaries	Subsidiary of the Company for which the Chairman of the Company co-acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Rent: RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	1,942.2	63.68%	Tele-transfer	N/A	27 June 2012	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Total				–	–	44,809.1	N/A	–	–	–	–

Detailed information of substantial sales return	None
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2013 be capped at RMB900 million (before VAT); At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2013 be capped at RMB600 million (before VAT); At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Group in 2013 be capped at RMB78 million and RMB33 million, respectively (before VAT); At the Third Meeting of the Fifth Session of the Board of Directors held on 27 April 2010, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB44.16 million for a term commencing on 18 April 2010 and ending on 17 April 2013; At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015; At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB11.40 million for a term commencing on 1 January 2012 and ending on 31 December 2014; At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, or its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2012 and ending on 30 June 2013; and the estimated amount payable by Zhongxing Hetai or its subsidiaries to the Company for the lease of properties and relevant equipment and facilities be capped at RMB46 million for the period commencing on 1 July 2012 and ending on 30 June 2013; and Please refer to the above table for details of the execution of the aforesaid connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

Note: For details of the connected transactions, please refer to Note VI to the financial statements prepared in accordance with PRC ASBEs.

2. **The Company did not conduct any connected transactions arising from asset acquisitions or disposals during the reporting period.**

3. **The Company did not conduct any material connected transaction involving joint investment in third parties during the reporting period**

4. **Creditors and debtors with connected parties**

During the reporting period, the Company did not incur any creditors or debtors with connected parties of a non-operating nature.

5. **Other material connected transactions**

At the Second Meeting of the Sixth Session of the Board of Directors held on 26 April 2013, the major connected transaction between the Company and Zhongxing Hetai was considered and passed as follows (please refer to the "Overseas Regulatory Announcement" published by the Company on 26 April 2013):

① The aggregate amount of continuing connected transactions between the Company and Zhongxing Hetai or its subsidiaries relating to purchases for hotel services for the period from 1 July 2013 to 30 June 2014 was estimated at RMB90 million;

② The aggregate amount of continuing connected transactions between the Company and Zhongxing Hetai or its subsidiaries relating to the lease of properties and related equipment for the period from 1 July 2013 to 30 June 2014 was estimated at RMB48 million.

(XIII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. **There was no trust, contract management or lease of assets of other companies by the Group or of the Group's assets by other companies commencing or subsisting during the reporting period.**

Material Matters

2. Third-party guarantees during the reporting period.

Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
Total amount of third-party guarantee approved during the reporting period (A1)			0		Total amount of third-party guarantee actually incurred during the reporting period (A2)		0	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)			RMB68,536,100		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)		RMB68,536,100	

Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE (H.K.) Limited Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability assurance	6.6 years	No	No
Closed Joint-Stock Company CJSC TK Mobile Note 2	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia Note 2	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability assurance	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed	No	No
PT. ZTE Indonesia Note 2	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability assurance	3.5 years or from maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed, whichever later	No	No
ZTE Telecom India Private Limited Note 3	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE Telecom India Private Limited Note 3	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance		No	No
ZTE (H.K.) Limited Note 4	9 April 2011, 201112 9 July 2011, 201130	USD900 million	8 July 2011	USD900 million	Joint liability	From the effective date of the assurance guarantee to the expiry of 60 months from the date of the facility agreement	No	No
ZTE France SASU Note 5	14 December 2011, 201152	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance of obligations of ZTE France under "SMS Contract" and "PATES Contract" expire or terminate (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)			0		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)		0	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)			RMB6,578,056,900		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)		RMB6,043,479,400	

Total amount guaranteed by the Company (sum of the two categories aforesaid)

Total amount of guarantee approved during the reporting period (A1+B1)	0	Total amount of guarantee actually incurred during the reporting period (A2+B2)	0
Total amount of guarantee approved as at the end of the reporting period (A3+B3) Note 1	RMB6,628,056,900	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) Note 1	RMB6,093,479,400
Total amount of guarantee (A4+B4) as a percentage of net assets of the Company		28.06%	
Including:			
Amount of guarantee provided on behalf of shareholders, defacto controllers and their connected parties (C)		0	
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)		RMB6,043,479,400	
Amount of total guarantee exceeding 50% of net assets (E)		0	
Aggregate amount of the three guarantee amounts stated above (C+D+E)		RMB6,043,479,400	
Statement on potential joint liability involved in outstanding guarantees		For details of the guarantee obligation undertaken by ZTE HK, a wholly-owned subsidiary of the Company, in respect of Benin Telecoms S.A., please refer to Note 1.	
Statement on provision of guarantee to third parties in violation of stipulated procedures		N/A	

Note 1: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, the Company is the ultimate guarantor and Benin Telecoms S.A. ("Benin Telecoms") is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantee approved as at the end of the reporting period and the total amount of guarantee actually incurred as at the end the reporting period. ZTE HK was required to make a payment of USD2,803,925.46 to Societe Generale (Hong Kong Branch) in compensation, on the grounds that Benin Telecoms, the guaranteed party, had failed to honour repayments as scheduled. As at the date of this report, ZTE HK has made the payment, after which the guarantee obligations of the Company and ZTE HK shall be released. For details please refer to the "Announcement on performance of guarantee obligation in respect of Benin Telecoms SA" published by the Company on 21 August 2013.

Note 2: It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of USD40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary of the Company and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the First Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. As at the end of the reporting period, a USD5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's bank credit facilities has been executed and the USD40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile's bank loans by way of pledge of equity has not yet been performed as the relevant agreement has not yet been signed.

Note 3: It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than USD30 million be provided by the Company for ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company and application be made by the Company to the Indian local bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding USD3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the Second Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. As at the end of the reporting period, an agreement in respect of the USD30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the USD3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

Note 4: On 8 July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. On 8 July 2011, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in respect of the syndicate loan for ZTE HK. The period of guarantee shall commence on the date on which the guarantee becomes effective and ends on the date which is 60 months after the date of the syndicate loan agreement. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors held on 8 April 2011. As the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company held on 17 May 2011 and was considered and approved.

Note 5: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France, a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract ("SMS Contract") and the PATES-NG Execution Contract ("PATES Contract"). As at the end of the reporting period, the guarantee provided by the Company in respect of the performance obligations of ZTE France is undergoing registration procedures of the State Administration of Foreign Exchange and has yet to be performed.

Note 6: Being the book exchange rate of the Company as at 30 June 2013. Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1038. Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.1787. Guaranteed amounts denominated in Euro dollars are translated at the exchange rate of EUR1 to RMB8.0536.

Note 7: All third party guarantees of the Company shall be submitted to the Board of Directors for its review and shall require the approval of two-thirds of the members of the Board of Directors in order to be effective. If such third party guarantees are otherwise subject to review and approval at the general meeting, then they shall be tabled at the general meeting following approval by the Board of Directors in order to be effective.

Material Matters

3. **A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Richard Xike Zhang as follows:**

(1) As at 30 June 2013, the transfer of funds between the Company and the controlling shareholder and other connected parties represented transactions in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties had appropriated the Company's non-operating funds or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have reviewed the Company's transactions against the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.

(2) During the reporting period, the Company did not enter into any new third-party guarantees. As at 30 June 2013, the total amount of guarantees provided by the Company actually incurred was RMB6,093,479,400, accounting for 28.06% of the owner's equity attributable to shareholders of the listed company. For details of the third party guarantees of the Company, please refer to the sub-section headed "2. Third-party guarantees during the reporting period" in this section. The information on guarantees disclosed in the 2013 Interim Report of the Company was true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.

(3) In accordance with the CSRC's "Notice regarding the Regulation of Third-party Guarantees Made by Listed Companies", respective Listing Rules of domestic and overseas stock exchanges and other pertinent regulations, the Company has specified the scope of authority for the Board of Directors and the general meeting in approving third-party guarantees in the Articles of Association, and has formulated the ZTE Measures for the Administration of Third-party Guarantees, in which the approval process of third-party guarantees to be made by the Company and its subsidiaries is specifically provided for to regulate third-party guarantees of the Company and effectively control risks arising therefrom.

(4) The Independent Non-executive Directors of the Company have reviewed the Company's transactions against the "Notice regarding the Regulation of Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2005] No. 120), the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during the reporting period are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

4. **Performance of material contracts entered into during or prior to the reporting period**

During the reporting period, the Company did not enter into any materials contracts requiring disclosure. Progress of material contracts entered into prior to the reporting period is set out as follows:

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Not less than USD4 billion	No	Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 between the Company and Broadcom	21 February 2012	By reference to market prices	Not less than USD1 billion	No	Under normal progress

(XIV) UNDERTAKING

1. **Undertakings by the Company or shareholders interested in 5% or more of the shares in the Company occurring during the reporting period or occurring in previous periods but subsisting in the reporting period**

☐ Applicable ✓ N/A

2. **Company statement on meeting original profit forecasts for assets or projects and the reasons therefor, where such profit forecasts have been made and the reporting period falls within the profit forecast period**

☐ Applicable ✓ N/A

(XV) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.

Material Matters

(XVI) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDER INTERESTED IN MORE THAN 5% OF THE SHARES WAS SUBJECT TO INVESTIGATION BY COMPETENT AUTHORITIES, ENFORCEMENT BY JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, CASE INVESTIGATION OR ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, OPINION OF DEEMED INAPPROPRIATENESS, PUNISHMENT BY OTHER ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY THE STOCK EXCHANGE.

(XVII) INDEX OF INFORMATION DISCLOSURE OF THE COMPANY DURING THE REPORTING PERIOD

Date of domestic disclosure	Announcement
15 January 2013	Announcement of Resolutions of the Thirty-ninth Meeting of the Fifth Session of the Board of Directors
	Declaration of the Candidate for Independent Director
	Declaration of the Nominating Party of the Candidate for Independent Director
	Announcement of Resolutions of the Twenty-sixth Meeting of the Fifth Session of the Supervisory Committee
	Notice of the First Extraordinary General Meeting of 2013
18 January 2013	Announcement of Redemption and Interest Payment of “中興債1” and Delisting Announcement
21 January 2013	Preliminary Results Announcement for the Year Ended 31 December 2012
19 February 2013	Indicative Announcement on the Convening of the First Extraordinary General Meeting of 2013
8 March 2013	Announcement of Resolutions of the First Extraordinary General Meeting of 2013
28 March 2013	Announcement of Resolutions of the Fortieth Meeting of the Fifth Session of the Board of Directors
	2012 Annual Report Summary
	Announcement on the Application for Derivative Investment Limits for 2013
	Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors
	Notice of the 2012 Annual General Meeting
3 April 2013	Announcement of Resolutions of the First Meeting of the Sixth Session of the Board of Directors
	Announcement of the Sixth Session of the Board of Directors
	Announcement of Resolutions of the First Meeting of the Sixth Session of the Supervisory Committee
9 April 2013	Announcement of Election of Independent Non-executive Director
27 April 2013	Announcement of Resolutions of the Second Meeting of the Sixth Session of the Board of Directors
	Announcement of Resolutions of the Second Meeting of the Sixth Session of the Supervisory Committee
	Text of the 2013 First Quarterly Report
	Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange
9 May 2013	Announcement of Resolutions of the Third Meeting of the Sixth Session of the Board of Directors

Date of domestic disclosure	Announcement
	Announcement of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking
	Announcement of Resolutions of the Third Meeting of the Sixth Session of the Supervisory Committee
	Report on the Solicitation of Voting Rights by the Independent Non-executive Directors
	Notice of the Second Extraordinary General Meeting of 2013
10 May 2013	Indicative Announcement on the Convening of the 2012 Annual General Meeting
23 May 2013	Notice of the Second Extraordinary General Meeting of 2013 (Updated)
31 May 2013	Announcement of Resolutions of the 2012 Annual General Meeting
	Indicative Announcement on the Convening of the Second Extraordinary General Meeting of 2013
4 June 2013	Announcement of 2013 Interest Payment for the Corporate Bonds (Tranche 1) 2012
8 June 2013	Indicative Announcement of the Convening of the Second Extraordinary General Meeting of 2013
14 June 2013	Announcement of Resolutions of the Fourth Meeting of the Sixth Session of the Board of Directors
	Declaration of the Nominating Party of the Candidate for Independent Director
	Declaration of the Candidate for Independent Director
	Supplementary Notice of the Second Extraordinary General Meeting of 2013
	Report on the Solicitation of Voting Rights by the Independent Non-executive Directors (Complete Version)
29 June 2013	Announcement of Resolutions of The Second Extraordinary General Meeting of 2013
	Announcement of Notification to Creditors on the Repurchase and Cancellation of Certain Share Option Incentive Stock

Note: The announcements listed in the table above represent information disclosure published in China Securities Journal, Shanghai Securities News, Securities Times and http://www.cninfo.com.cn.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHARE CAPITAL OF THE COMPANY DURING THE REPORTING PERIOD

Unit: Shares

	Opening Balance (31 December 2012)		Increase/decrease (+/–) resulting from changes in the reporting period					Closing Balance (30 June 2013)	
	Number	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others[Note]	Sub-total	Number	Percentage
I. Shares subject to lock-up	**11,260,557**	**0.33%**	**–**	**–**	**–**	**249,919**	**249,919**	**11,510,476**	**0.34%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	2,536,742	0.08%	–	–	–	–	–	2,536,742	0.08%
Comprising: Domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	2,536,742	0.08%	–	–	–	–	–	2,536,742	0.08%
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Senior management shares	8,723,815	0.25%	–	–	–	249,919	249,919	8,973,734	0.26%
II. Shares not subject to lock-up	**3,428,817,463**	**99.67%**	**–**	**–**	**–**	**(249,919)**	**(249,919)**	**3,428,567,544**	**99.66%**
1. RMB ordinary shares	2,799,232,018	81.37%	–	–	–	(249,919)	(249,919)	2,798,982,099	81.36%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H Shares)	629,585,445	18.30%	–	–	–	–	–	629,585,445	18.30%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**3,440,078,020**	**100%**	**–**	**–**	**–**	**–**	**–**	**3,440,078,020**	**100%**

Note: According to relevant domestic regulations, shares held by Directors, Supervisors or senior management of the Company shall be subject to lock-up or unlocking on a pro-rata basis.

(II) CHANGES IN SHARES SUBJECT TO LOCK-UP DURING THE REPORTING PERIOD

Unit: Shares

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 Dec 2012	Number of shares released from lock-up during the reporting period	Increase in the number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	973,103	–	–	973,103	Restricted senior management shares	Note 1
2	Ni Qin	547,920	–	182,640	730,560	Restricted senior management shares	Note 3
3	Chen Jie	595,936	–	–	595,936	Restricted senior management shares	Note 1
4	Zhang Taifeng	376,067	–	125,358	501,425	Restricted senior management shares	Note 3
5	Yin Yimin	474,624	–	–	474,624	Restricted senior management shares	Note 1
6	Zeng Xuezhong	425,700	–	–	425,700	Restricted senior management shares	Note 1
7	Fan Qingfeng	421,874	–	–	421,874	Restricted senior management shares	Note 1
8	Xu Huijun	420,709	–	–	420,709	Restricted senior management shares	Note 1
9	Pang Shengqing	391,051	–	–	391,051	Restricted senior management shares	Note 1
10	Ye Weimin	387,248	–	–	387,248	Restricted senior management shares	Note 1
11	Others	6,246,325	98,107	40,028	6,188,246	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2, Note 3
	Total	11,260,557	98,107	348,026	11,510,476	–	–

Note 1: According to relevant domestic regulations, up to 25% of the shares held may be disposed of by the Directors, Supervisors and senior management of the Company through the stock exchange each year.

Note 2: As at the end of the reporting period, 2,536,742 restricted shares did not qualify for unlocking pursuant to the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) of ZTE Corporation.

Note 3: Certain Directors, Supervisors and senior management of the Company ceased to be Directors, Supervisors and senior management. In accordance with relevant domestic regulations, Directors, Supervisors and senior management of the Company are not allowed to transfer their shares of the Company within six months after the resignation.

(III) ISSUE AND LISTING OF SECURITIES IN THE PAST THREE YEARS

1. On 21 January 2010, the Company completed the placing of 58,294,800 H shares for listing pursuant to the general mandate at a placing price of HK$45.0 per share, raising net proceeds of approximately HK$2,596 million.

2. As at the close of trading on 12 February 2010, a total of 23,348,590 "中興 ZXC1" Warrants had been exercised at an exercise ratio of 1:0.922 and an adjusted exercise price of RMB42.394 per share on an ex-rights and ex-dividend basis to subscribe for 21,523,441 A shares, raising proceeds of approximately RMB912 million.

3. On 24 June 2010, the Company implemented the 2009 profit distribution and capitalisation of capital reserve plans, whereby 5 shares were issued for every 10 shares held on the basis of a total share capital of 1,911,154,456 shares. Following the implementation, the total capital of the Company was increased by 955,577,228 shares.

4. On 7 July 2011, the Company implemented the 2010 profit distribution and capitalisation of capital reserve plans, whereby 2 shares were issued for every 10 shares held on the basis of a total share capital of 2,866,731,684 shares. Following the implementation, the total capital of the Company was increased by 573,346,336 shares.

Changes in Shareholdings and Information of Shareholders

5. The Company completed the issue of the 2012 corporate bonds (tranche 1) on 15 June 2012. The finalized online and offline issue volumes amounted to RMB200 million and RMB5,800 million, respectively. The corporate bonds under the said issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code "112090" and the abbreviated bond name "12中興01".

6. Changes in the total number and structure of the share capital and resulting changes in the balance sheet structure of the Company.

   ☐ Applicable ✓ N/A

7. The Company had no employees' shares.

(IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

1. Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up

Total number of shareholders	137,227 shareholders (of which 136,870 were holders of A shares and 357 were holders of H shares)

Shareholdings of top ten shareholders

	Name of shareholders	Nature of Shareholders	Total number of shares held (shares)	Percentage of Shareholdings	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1.	Zhongxingxin	State-owned shareholders	1,058,191,944	30.76%	0	None
2.	HKSCC Nominees Limited	Foreign shareholders	628,246,324	18.26%	0	Unknown
3.	CITIC Trust Co.,Ltd. — Wealth Management 06	Others	58,194,000	1.69%	0	Unknown
4.	Hunan Nantian (Group) Co., Ltd	State-owned shareholders	37,450,609	1.09%	0	Unknown
5.	China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	37,000,000	1.08%	0	Unknown
6.	Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF)	Others	34,030,216	0.99%	0	Unknown
7.	China Life Insurance Company Limited — Dividend— Individual Dividend–005L — FH002 Shen	Others	29,512,305	0.86%	0	Unknown
8.	China Life Insurance Company Limited — Traditional — General Insurance Products–005L — CT001 Shen	Others	26,456,657	0.77%	0	Unknown
9.	Bank of Communications — Bosera Emerging Growth Stock Fund	Others	25,699,505	0.75%	0	Unknown
10.	China Minsheng Banking Corp., Ltd. — Yinhua SZSE 100 ETF Classified Securities Investment Fund	Others	25,383,232	0.74%	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	628,246,324	H shares
3.	CITIC Trust Co.,Ltd. — Wealth Management 06	58,194,000	A shares
4.	Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
5.	China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	37,000,000	A shares
6.	Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF)	34,030,216	A shares
7.	China Life Insurance Company Limited — Dividend — Individual Dividend–005L — FH002 Shen	29,512,305	A shares
8.	China Life Insurance Company Limited — Traditional — General Insurance Products–005L — CT001 Shen	26,456,657	A shares
9.	Bank of Communications — Bosera Emerging Growth Stock Fund	25,699,505	A shares
10.	China Minsheng Banking Corp., Ltd. — Yinhua SZSE 100 ETF Classified Securities Investment Fund	25,383,232	A shares

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

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

2. The 7th and 8th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited.

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

Note 1: During the 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: Changes in the shareholding of Zhongxingxin, shareholder interested in more than 5% of the Company's shares, during the reporting period are as follows:

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

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

☐ Applicable ✓ N/A

Changes in Shareholdings and Information of Shareholders

2. **Controlling shareholders of the Company**

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

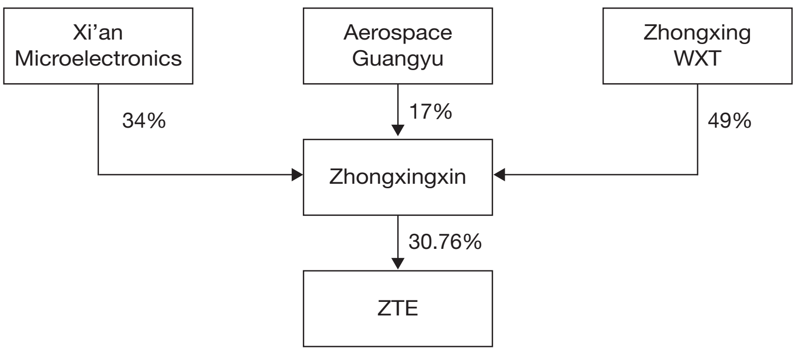
Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Organisation number:	19222451-8
Registered capital:	RMB100 million

Scope of business: Production of programmed switchboard 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.

3. **Controlling shareholders and de facto controllers of the Company**

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 composition of the board of directors of Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin has 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. For details of these three shareholders, please refer to the section headed "Changes in Shareholdings and Information of Shareholders — (IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR" in the 2012 Annual Report of the Company.

The following diagram shows the shareholding relationships between the said corporate shareholders and the Company as at 30 June 2013:



4. **The Company had no other corporate shareholder who was interested in more than 10% of its shares**

5. Interests of substantial shareholders of the Company in shares and underlying shares

As at 30 June 2013, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shareholding	Approximate shareholding as a percentage (%) of: Total share capital	Relevant class of shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Zhongxing WXT	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Xi'an Microelectronics	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
China Aerospace Electronics Technology Research Institute	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
CASC	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
The Capital Group Companies, Inc.	Interest of controlled corporation	52,924,400 H shares (L)	1.54(L)	8.41(L)
JPMorgan Chase & Co.	Beneficial owner, investment manager and approved lending agent	48,948,772 H shares (L)	1.42(L)	7.77(L)
	Beneficial owner	12,259,742 H shares (S)	0.36(S)	1.95(S)
	Approved lending agent	34,745,482 H shares (P)	1.01(P)	5.52(P)
Deutsche Bank Aktiengesellschaft	Beneficial owner, person holding interest of guarantee on shares and interest of controlled corporation	47,599,268 H shares (L)	1.38(L)	7.56(L)
	Beneficial owner and person holding interest of guarantee on shares	36,835,509 H shares (S)	1.07(S)	5.85(S)
Wellington Management Company, LLP	Investment manager	46,914,700 H shares (L)	1.36(L)	7.45(L)
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16(L) note	6.96(L) note
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	1.12(L)	6.10(L)
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H shares (L)	0.88(L) note	5.26(L) note
Sun Life Financial, Inc.	Interest of controlled corporation	8,428,100 H shares (L)	0.88(L) note	5.26(L) note

(L) — long position, (S) — short position, (P) — lending pool

Changes in Shareholdings and Information of Shareholders

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital (959,521,650 shares) and total number of H shares (160,151,040 shares) before the capitalisation of capital reserves on 10 July 2008.

Save as disclosed above, as at 30 June 2013, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

6. Purchase, sale and redemption of securities

During the reporting period, the Company did not purchase, sell or redeem any listed securities of the Company.

Directors, Supervisors and Senior Management

(I) CHANGES IN THE SHAREHOLDINGS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 at the end of the reporting period 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	Whether remuneration is received from shareholder entities
Directors of the Company													
1	Hou Weigui	Chairman	Incumbent	Male	72	3/2013	3/2016	1,297,472	–	–	1,297,472		No
2	Zhang Jianheng	Vice Chairman	Incumbent	Male	52	3/2013	3/2016	–	–	–			No
3	Xie Weiliang	Vice Chairman	Incumbent	Male	57	3/2013	3/2016	32,760	–	–	32,760		Yes
4	Wang Zhanchen	Director	Incumbent	Male	61	3/2013	3/2016	–	–	–	–		No
5	Zhang Junchao	Director	Incumbent	Male	60	3/2013	3/2016	32,760	–	–	32,760		No
6	Dong Lianbo	Director	Incumbent	Male	56	3/2013	3/2016	32,760	–	–	32,760		Yes
7	Shi Lirong	Director and President	Incumbent	Male	49	3/2013	3/2016	410,511	–	–	410,511		No
8	Yin Yimin	Director	Incumbent	Male	50	3/2013	3/2016	632,833	–	–	632,833		No
9	He Shiyou	Director and Executive Vice President	Incumbent	Male	47	3/2013	3/2016	344,940	–	–	344,940		No
10	Qu Xiaohui	Independent Non-executive Director	Incumbent	Female	59	3/2013	7/2015	–	–	–	–		No
11	Wei Wei	Independent Non-executive Director	Incumbent	Male	48	3/2013	7/2015	–	–	–	–		No
12	Chen Naiwei	Independent Non-executive Director	Incumbent	Male	56	3/2013	7/2015	–	–	–	–		No
13	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	69	3/2013	3/2016	–	–	–	–		No
14	Timonthy Alexander Steinert Note 1	Independent Non-executive Director	Resigned	Male	53	3/2013	6/2013	–	–	–	–		No
15	Richard Xike Zhang Note 1	Independent Non-executive Director	Incumbent	Male	43	6/2013	3/2016	–	–	–	–		No
Supervisors of the Company													
16	Zhang Taifeng	Chairman of Supervisory Committee	Resigned	Male	72	3/2010	3/2013	501,425	–	–	501,425		No
17	Xie Daxiong Note 2	Chairman of Supervisory Committee	Incumbent	Male	50	3/2013	3/2016	498,492	–	–	498,492		No
18	He Xuemei	Supervisor	Incumbent	Female	43	3/2013	3/2016	80,347	–	–	80,347		No
19	Zhou Huidong	Supervisor	Incumbent	Male	37	3/2013	3/2016	78,158	–	–	78,158		No
20	Wang Yan	Supervisor	Resigned	Female	48	3/2010	3/2013	–	–	–	–		Yes
21	Xu Weiyan	Supervisor	Incumbent	Female	51	3/2013	3/2016	9,199	–	–	9,199		No
22	Chang Qing Note 2	Supervisor	Incumbent	Male	58	3/2013	3/2016	–	–	–	–		Yes
Senior management of the Company													
23	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	51	4/2013	3/2016	437,421	–	–	437,421		No
24	Xie Daxiong Note 3	Executive Vice President	Resigned	Male	50	3/2010	1/2013	498,492	–	–	498,492		No
25	Tian Wenguo	Executive Vice President	Incumbent	Male	44	4/2013	3/2016	273,169	–	–	273,169		No
26	Qiu Weizhao	Executive Vice President	Incumbent	Male	50	4/2013	3/2016	446,600	–	–	446,600		No
27	Fang Qingfeng	Executive Vice President	Incumbent	Male	45	4/2013	3/2016	562,500	–	–	562,500		No
28	Chen Jie	Senior Vice President	Incumbent	Female	55	4/2013	3/2016	794,583	–	–	794,583		No
29	Zhao Xianming	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	431,873	–	107,968	323,905	Note 5	No
30	Pang Shengqing	Senior Vice President	Incumbent	Male	45	4/2013	3/2016	521,402	–	–	521,402		No
31	Zeng Xuezhong	Senior Vice President	Incumbent	Male	40	4/2013	3/2016	567,600	–	–	567,600		No
32	Xu Huijun	Senior Vice President	Incumbent	Male	40	4/2013	3/2016	560,945	–	–	560,945		No
33	Ye Weimin	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	516,331	–	–	516,331		No
34	Ni Qin Note 3	Senior Vice President	Resigned	Male	54	3/2010	1/2013	730,560	–	–	730,560		No
35	Wu Zengqi Note 3	Senior Vice President	Resigned	Male	49	3/2010	1/2013	486,570	–	121,643	364,927	Note 5	No
36	Zhu Jinyun	Senior Vice President	Incumbent	Male	41	4/2013	3/2016	482,460	–	–	482,460		No
37	Zhang Renjun	Senior Vice President	Incumbent	Male	44	4/2013	3/2016	–	–	–	–		No
38	Wang Jiaran Note 3	Senior Vice President	Resigned	Male	44	3/2012	1/2013	151,107	–	–	151,107		No
39	Chen Jianzhou	Senior Vice President	Incumbent	Male	43	4/2013	3/2016	130,028	–	–	130,028		No
40	Cheng Lixin Note 4	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	3,000	–	–	3,000		No
41	Feng Jianxiong	Secretary to the Board of Directors	Incumbent	Male	39	4/2013	3/2016	275,000	–	–	275,000		No
–	**Total**	–	–	–	–	–	–	**11,322,806**	–	**229,611**	**11,093,195**		–

Directors, Supervisors and Senior Management

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

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

Note 3: 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 President of the Company and of Mr. Ni Qin, Mr. Wu Zengqi and Mr. Wang Jiaran each as Senior Vice President of the Company.

Note 4: At the First Meeting of the Sixth Session of the Board of Directors held on 2 April 2013, the appointment of Mr. Cheng Lixin as Senior Vice President of the Company was approved.

Note 5: Reduction of shareholdings in accordance with "Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof".

Note 6: 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.

Share incentives granted to Directors, Supervisors and senior management during the reporting period

☐ Applicable ✓ N/A

(II) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY

Name	Name of shareholder	Position in the shareholder	Commencement of term of office	Conclusion of term of office	Whether remuneration is received from shareholder entities
Xie Weiliang	Zhongxingxin	Chairman	May 2013	May 2016	No
	CASIC Shenzhen (Group) Company Limited	Director and general manager	February 2003	Incumbent	Yes
Zhang Junchao	Zhongxingxin	Vice chairman	May 2013	May 2016	No
	Xi'an Microelectronics	Legal representative	October 2003	Incumbent	No
Dong Lianbo	Zhongxingxin	Director	May 2013	May 2016	No
	CASIC Shenzhen (Group) Company Limited	Director and deputy general manager	February 2003	Incumbent	Yes
Zhang Taifeng	Zhongxingxin	Vice chairman	May 2013	May 2016	No
Wei Zaisheng	Zhongxingxin	Director	May 2013	May 2016	No
Chang Qing	Zhongxingxin	Assistant to General Manager	April 2008	Incumbent	Yes
		Workers' Union Chairman	December 2012	Incumbent	No

(III) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Hou Weigui Note 1	Held positions in 14 subsidiaries including Zhongxing Software	Chairman	No
	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	Zhongxing Energy Company Limited	Chairman	No
	Zhongxing Energy (Tianjin) Company Limited	Chairman	No
	天津中興資本管理有限公司	Chairman	No
Zhang Jianheng	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and board chairman	No
	China Lucky Group Corporation	Chairman	No
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial Company Limited	General manager	No
Wang Zhanchen	China Aerospace Times Electronics Co., Ltd	Vice chairman	No
Zhang Junchao	China Academy of Aerospace Electronics Technology	Head of Shaanxi Management Division/deputy head of academy	No
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial Company Limited	Deputy general manager	No
Shi Lirong Note 2	Held positions in 5 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Director	No
Yin Yimin Note 3	Held positions in 2 subsidiaries including Telrise (Cayman) Telecom Limited	Director	No
	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive director	No
	ZTE Capital	Chairman/general manager	Yes
	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I	Executive manager	No
He Shiyou Note 4	Held positions in 3 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited	Chairman	No
	Zhongxing WXT	Supervisor	No
Qu Xiaohui	Xiamen University	Professor	Yes
		Director/dean	No
	Yunnan Baiyao Group Co., Ltd.	Independent non-executive director	Yes
	Taikang Life Insurance Co., Ltd.	Independent non-executive director	Yes
	Guangzhou Baiyun Electric Equipment Co., Ltd.	Independent non-executive director	Yes
	Xiamen NetinNet Software Company Limited	Financial advisor	Yes
Wei Wei	Peking University HSBC Business School	Associate dean	Yes
	Changyuan Group Company Limited	Independent non-executive director	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
Chen Naiwei	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
Tan Zhenhui	Beijing Jiaotong University	Director of University Academic Committee/professor	Yes
	Jiangsu Tongding Optic-electronic Stock Co., Ltd.	Independent non-executive director	Yes
Timothy Alexander Steinert	Alibaba Group Holding Limited	Chief legal officer	Yes
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Zhang Taifeng	Held positions in 2 subsidiaries including ZTE Kangxun	Chairman	No
	Zhongxing Xinyu	Chairman	No

Directors, Supervisors and Senior Management

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Xie Daxiong	Held positions in 6 subsidiaries including Tianjin Zhongxing Software Company Limited	Chairman/director	No
Zhou Huidong Note 5	Held positions in 10 subsidiaries including ZTE Group Finance	Supervisor	No
Wang Yan	Held positions in 3 companies including Zhongxing Xinyu	Director/supervisor/deputy general manager and chief financial officer	Note 6
Xu Weiyan	ZTE Kangxun	Supervisor	No
Chang Qing	陝西中興百綠環保工程有限責任公司	Director	No
Wei Zaisheng	Held positions in 19 subsidiaries including ZTE Kangxun	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Capital Group Co., Ltd.	Supervisor	No
Tian Wenguo	Held positions in 8 subsidiaries including Shenzhen ZTE Supply Chain Co., Ltd.	Chairman/director	No
Qiu Weizhao	Shenzhen Zhongxing Microelectronics Technology Company Limited	Director	No
Fan Qingfeng	Held positions in 4 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited	Director	No
Chen Jie	Held positions in 12 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/general manager	No
Zhao Xianming	Held positions in 4 subsidiaries including ZTE Integration Telecom Company Limited	Chairman/general manager	No
Pang Shengqing	Held positions in 11 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
Zeng Xuezhong	Held positions in 7 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman/director	No
Xu Huijun	Held positions in 2 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company Limited	Director/general manager	Note 7
	Zhongxing Energy Company Limited	Director	No
	Zhongxing Energy (Tianjin) Company Limited	Director	No
Ni Qin	深圳市中興系統集成技術有限公司	Director/general manager	No
Wu Zengqi	ZTE (Texas), Inc.	Chairman/general manager	Yes
Zhu Jinyun	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Zhang Renjun	ZTE Japan K.K.	Director	No
Cheng Lixin	Held positions in 3 subsidiaries including ZTE (USA), Inc.	Chairman/director/general manager	Note 8
Feng Jianxiong	Held positions in 3 subsidiaries including ZTE Group Finance	Director/supervisor	No

Note 1: Mr. Hou Weigui ceased to be director of China Aerospace Investment Holdings Ltd. as from April 2013.

Note 2: Mr. Shi Lirong ceased to be chairman of Zhongxing Telecom Pakistan (Private) Ltd., and director of Chengdu Zhongxing Software Company Limited, Changsha Zhongxing Software Company Limited, Sanya Zhongxing Software Company Limited, 北京中興網捷科技有限公司, Nanjing Zhongxingxin Software Company Limited, Chongqing Zhongxing Software Company Limited, Zhongxing Energy Company Limited, Zhongxing Energy (Tianjin) Company Limited and Shanghai Zhongxing Software Company Limited, respectively, as from March 2013.

Note 3: Mr. Yin Yimin ceased to be director of Nanjing Zhongxing Software Company Limited, Xi'an Zhongxingxin Software Company Limited and Xi'an Zhongxing Software Company Limited as from March 2013, April 2013 and June 2013, respectively.

Note 4: Mr. He Shiyou ceased to be director of Xi'an Zhongxing Software Company Limited as from June 2013.

Note 5: Mr. Zhou Huidong was appointed supervisor of 西安中興精誠通訊有限公司, 深圳市中興系統集成技術有限公司 and Shenzhen ZTE SEECOM Tech Co., Ltd. in February 2013, March 2013 and June 2013, respectively.

Note 6: Ms. Wang Yan received remuneration from Shenzhen Zhongxing Micro Finance Co., Ltd.

Note 7: Mr. Xu Huijun received remuneration from Wuxi Zhongxing Optoelectronics Technologies Company Limited.

Note 8: Mr. Cheng Lixin received remuneration from ZTE (USA), Inc.

(IV) DECISION-MAKING PROCESS, BASES FOR DETERMINATION AND ACTUAL PAYMENT OF REMUNERATION FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Allowances for Directors are based on recommendations of the Remuneration and Evaluation Committee of the Board of Directors made with reference to the duties of Directors at the Company and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the Board of Directors and the General Meeting.

Allowances for Supervisors are based on recommendations of the Supervisory Committee made with reference to the duties of Supervisors and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the General Meeting.

The remuneration for senior management personnel is based on the results of annual performance appraisals conducted by the Remuneration and Evaluation Committee and determined upon consideration by the Board of Directors.

Remuneration for the Directors, Supervisors and senior management are determined and payable by the Company in accordance with the aforesaid provisions and procedures.

(V) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

Pursuant to the "Resolution on the Removal of Senior Management Personnel" considered and passed at the Thirty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 14 January 2013, the discontinuation of the employment of Mr. Xie Daxiong as Executive Vice President of the Company and each of Mr. Ni Qin, Mr. Wu Zengqi and Mr. Wang Jiaran as Senior Vice President of the Company was approved.

At the First Extraordinary General Meeting of 2013 of the Company held on 7 March 2013, Mr. Hou Weigui, Mr. Zhang Jianheng, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Shi Lirong, Mr. Yin Yimin, Mr. He Shiyou, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert were elected Directors of the Sixth Session of the Board of Directors of the Company. The term of office of the Sixth Session of the Board of Directors of the Company shall commence on 30 March 2013 and end on 29 March 2016. For details of the term of office for Directors of the Sixth Session of the Board of Directors, please refer to the "Announcement of Resolutions of the First Extraordinary General Meeting of 2013" published by the Company on 7 March 2013.

At the First Extraordinary General Meeting of 2013 of the Company held on 7 March 2013, Mr. Chang Qing and Ms. Xu Weiyan were elected Shareholders' Representative Supervisors of the Sixth Session of the Supervisory Committee of the Company. On 28 February 2013, Mr. Xie Daxiong, Ms. He Xuemei, Mr. Zhou Huidong were elected Staff Representative Supervisors of the Sixth Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company. The term of office of the Sixth Session of the Supervisory Committee of the Company shall commence on 30 March 2013 and end on 29 March 2016. For details of the term of office for Supervisors of the Sixth Session of the Supervisory Committee, please refer to the "Announcement of Resolutions of the First Extraordinary General Meeting of 2013" published by the Company on 7 March 2013.

Directors, Supervisors and Senior Management

At the First Meeting of the Sixth Session of the Board of Directors held on 2 April 2013, the "Resolution of the Company on the Appointment of Senior Management Personnel of the Company for a New Term" was considered and passed, whereby the re-appointments of Mr. Shi Lirong as President of the Company; each of Mr. He Shiyou, Mr. Wei Zaisheng, Mr. Tian Wenguo, Mr. Qiu Weizhao and Mr. Fan Qingfeng as Executive Vice President of the Company; Mr. Wei Zaisheng as Chief Financial Officer of the Company; and each of Ms. Chen Jie, Mr. Zhao Xianming, Mr. Pang Shengqing, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Ye Weimin, Mr. Zhu Jinyun, Mr. Zhang Renjun and Mr. Chen Jianzhou as Senior Vice President of the Company; the appointment of Mr. Cheng Lixin as Senior Vice President of the Company and the re-appointment of Mr. Feng Jianxiong as Secretary to the Board of the Company were considered and approved. The new term of the senior management of the Company shall commence on the date on which the resolution was considered and passed at the said Board meeting and ending upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016).

Mr, Timothy Alexander Steinert, Independent Non-executive Director of the Sixth Session of the Board of Directors, discontinued his officer as Independent Non-executive Director of the Company with effect from 29 June 2013 owing to his personal work arrangements relating to his position as chief legal officer of Alibaba Group Holding Limited.

Pursuant to the "Resolution on the Nomination of Candidate for Independent Non-executive Director" At the Third Meeting of the Nomination Committee of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Session of the Board of Directors of the Company held on 13 June 2013, Mr. Richard Xike Zhang was nominated by the Sixth Session of the Board of Directors of the Company as the candidate for election as Independent Non-executive Director of the Company. The resolution was considered and passed at the Second Extraordinary General Meeting of 2013 of the Company held on 28 June 2013. The term of office of Mr. Richard Xike Zhang commenced on 30 June 2013 and shall end upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016). Pursuant to the "Resolution on the Election of a New Member to Each of the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors" considered and passed at the Fifth Meeting of the Sixth Session of the Board of Directors of the Company on 1 July 2013, Mr. Richard Xike Zhang was elected a member to each of the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors to fill the casual vacancies. For details please refer to the "Announcement of Resolutions of the Fourth Meeting of the Sixth Session of the Board of Directors," "Announcement of Resolutions of The Second Extraordinary General Meeting of 2013" and "Announcement of Resolutions of the Fifth Meeting of the Sixth Session of the Board of Directors" published by the Company on 13 June 2013, 28 June 2013 and 1 July 2013, respectively.

Please refer to sections (II) and (III) in this chapter for details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company.

(VI) INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICER OF THE COMPANY IN SHARES OR DEBENTURES

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2013 are set out in the section of this chapter headed “Changes in the Shareholdings of the Company’s Directors, Supervisors and Senior Management”.

Save as disclosed above, as at 30 June 2013, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

As at 30 June 2013, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

Consolidated Balance Sheet

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note V	**30 June 2013 (unaudited)**	31 December 2012 (audited)
Assets			
Current assets			
Cash	1	**17,322,010**	24,126,423
Trading financial assets	2	**104,489**	106,297
Bills receivable	3	**5,737,182**	4,282,220
Trade receivables	4	**22,108,313**	22,068,176
Factored trade receivables	4	**4,296,363**	4,165,514
Other receivables	5	**1,668,518**	2,019,341
Prepayments	6	**920,456**	742,551
Inventories	7	**11,577,111**	11,442,389
Amount due from customers for contract works	8	**14,133,330**	13,666,100
Total current assets		**77,867,772**	82,619,011
Non-current assets			
Available-for-sale financial assets	9	**1,464,647**	1,092,335
Held-to-maturity investments	10	**160,505**	—
Long-term trade receivables	11	**717,027**	1,206,642
Factored long-term trade receivables	4	**3,740,283**	4,018,484
Long-term equity investments	13	**435,117**	455,768
Investment properties	14	**1,765,400**	1,686,158
Fixed assets	15	**7,709,892**	7,096,624
Construction in progress	16	**293,510**	824,387
Intangible assets	17	**1,255,933**	1,087,038
Deferred development costs	17	**2,639,041**	2,446,934
Deferred tax assets	18	**1,193,542**	1,218,605
Long-term deferred assets		**62,426**	90,017
Other non-current assets	33	**3,273,707**	3,604,303
Total non-current assets		**24,711,030**	24,827,295
TOTAL ASSETS		**102,578,802**	107,446,306

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note V	30 June 2013 (unaudited)	31 December 2012 (audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	20	**13,233,514**	17,923,607
Bank advances on factored trade receivables	4	**4,302,448**	4,168,932
Trading financial liabilities	21	**15,954**	105,739
Bills payable	22	**9,077,730**	11,478,102
Trade payables	23	**17,827,142**	18,115,877
Amount due to customers for contract works	8	**3,686,669**	3,459,545
Advances from customers	24	**3,347,938**	3,106,638
Salary and welfare payables	25	**2,452,019**	2,346,526
Taxes payable	26	**(620,419)**	(1,161,974)
Dividends payable	27	**116,112**	205,783
Other payables	28	**6,148,354**	8,127,193
Deferred income		**410,002**	267,082
Provisions	29	**284,019**	291,457
Long-term liabilities due within one year	30	**6,179**	4,524,420
Total current liabilities		**60,287,661**	72,958,927
Non-current liabilities			
Long-term loans	31	**8,278,918**	989,990
Bank advances on factored long-term trade receivables	4	**3,740,283**	4,018,484
Bonds payable	32	**5,987,792**	6,107,993
Deferred tax liabilities	18	**139,900**	139,900
Other non-current liabilities	33	**1,368,723**	592,282
Total non-current liabilities		**19,515,616**	11,848,649
Total liabilities		**79,803,277**	84,807,576
Shareholders' equity			
Share capital	34	**3,440,078**	3,440,078
Capital reserves	35	**9,422,012**	9,352,643
Surplus reserves	36	**1,587,430**	1,587,430
Retained profits	37	**8,015,034**	7,705,022
Foreign currency translation differences		**(752,201)**	(582,699)
Total equity attributable to equity holders of the parent		**21,712,353**	21,502,474
Non-controlling interests		**1,063,172**	1,136,256
Total shareholders' equity		**22,775,525**	22,638,730
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**102,578,802**	107,446,306

The financial statements set out on page 70 to 206 have been signed by:

Legal representative: Hou Weigui

Chief Financial Officer: Wei Zaisheng

Head of Finance Division: Shi Chunmao

Consolidated Income Statement

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note V	**Six months ended 30 June 2013 (unaudited)**	Six months ended 30 June 2012 (unaudited)
Operating revenue	38	**37,576,212**	42,641,898
Less: Operating costs	38	**27,234,174**	31,277,990
Taxes and surcharges	40	**362,636**	608,119
Selling and distribution costs		**4,667,509**	5,323,563
Administrative expenses		**1,060,788**	1,038,026
Research and development costs		**3,627,555**	4,025,433
Finance expenses	43	**1,441,554**	831,063
Impairment losses	44	**926,688**	460,490
Add: Gains/(Losses) from changes in fair values	41	**162,888**	(31,439)
Investment income	42	**809,131**	90,878
Including: Share of profits and losses of associates and jointly-controlled entities	42	**(29,644)**	(7,922)
Operating profit/(loss)		**(772,673)**	(863,347)
Add: Non-operating income	45	**1,556,652**	1,546,718
Less: Non-operating expenses	45	**42,198**	27,739
Including: Loss on disposal of non-current assets		**7,171**	12,068
Total profit/(loss)		**741,781**	655,632
Less: Income tax	46	**412,537**	263,624
Net profit/(loss)		**329,244**	392,008
Net profit/(loss) attributable to owners of the parent		**310,012**	244,875
Non-controlling interests		**19,232**	147,133
Earnings per share	47		
Basic earnings per share		**RMB0.09**	RMB0.07
Diluted earnings per share		**RMB0.09**	RMB0.07
Other comprehensive income	48	**(99,838)**	724,599
Total Comprehensive income		**229,406**	1,116,607
Including:			
Total comprehensive income attributable to owners of the parent		**209,879**	954,853
Total comprehensive income attributable to non-controlling interests		**19,527**	161,754

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2013 (unaudited)								
	Equity attributable to equity holders of the parent								
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total	Non-controlling interests	Total shareholders' equity
I. Current period's opening balance	3,440,078	9,352,643	1,587,430	7,705,022	–	(582,699)	21,502,474	1,136,256	22,638,730
II. Changes during the period									
(1) Net profit/(loss)	–	–	–	310,012	–	–	310,012	19,232	329,244
(2) Other comprehensive income	–	69,369	–	–	–	(169,502)	(100,133)	295	(99,838)
Total comprehensive income	–	69,369	–	310,012	–	(169,502)	209,879	19,527	229,406
(3) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	–	–	–	–	–	–	19,600	19,600
2. Capital reduction by shareholders	–	–	–	–	–	–	–	(48,990)	(48,990)
3. Equity settled share expenses charged to equity	–	–	–	–	–	–	–	–	–
4. Disposal of subsidiaries	–	–	–	–	–	–	–	(63,221)	(63,221)
5. Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–
(4) Profit appropriation									
1. Appropriation to surplus reserves	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	–	–
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. Closing balance at the end of the period	3,440,078	9,422,012	1,587,430	8,015,034	–	(752,201)	21,712,353	1,063,172	22,775,525

Consolidated Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2012 (unaudited)									
	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	Non-controlling interests	Total shareholders' equity
I. Current period'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 period										
(1) Net profit/(loss)	–	–	–	–	244,875	–	–	244,875	147,133	392,008
(2) Other comprehensive income	–	929,245	–	–	–	–	(219,267)	709,978	14,621	724,599
Total comprehensive income	–	929,245	–	–	244,875	–	(219,267)	954,853	161,754	1,116,607
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	–	–	–	–	–	–	–	–	–	–
2. Equity settled share expenses charged to equity	–	3,666	–	–	–	–	–	3,666	–	3,666
3. Disposal of subsidiaries	–	–	–	(461)	–	–	–	(461)	1,392	931
4. Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–
(4) Profit appropriation										
1. Appropriation to surplus reserves	–	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(686,190)	–	(686,190)	(37,792)	(723,982)
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. Closing balance at the end of the period	3,440,078	9,472,718	(40,537)	1,587,430	10,790,859	–	(746,963)	24,503,585	2,182,412	26,685,997

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

		Note V	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**37,821,989**	42,243,025
	Refunds of taxes		**3,917,366**	4,122,121
	Cash received relating to other operating activities	49	**497,374**	412,133
	Sub-total of cash inflows from operating activities		**42,236,729**	46,777,279
	Cash paid for goods and services		**34,519,109**	36,332,231
	Cash paid to and on behalf of employees		**5,723,526**	6,411,292
	Cash paid for all types of taxes		**2,933,682**	3,529,884
	Cash paid relating to other operating activities	49	**3,401,496**	4,143,544
	Sub-total of cash outflows of operating activities		**46,577,813**	50,416,951
	Net cash flows from operating activities	50	**(4,341,084)**	(3,639,672)
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**423,898**	865,446
	Cash received from return on investments		**64,971**	31,854
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**4,278**	19,335
	Net cash received from disposal of subsidiaries		**1,006,367**	—
	Sub-total of cash inflows from investing activities		**1,499,514**	916,635
	Cash paid to acquisition of fixed assets, intangible assets and other long term assets		**1,149,184**	1,307,472
	Cash paid for acquisition of investments		**1,129,226**	962,734
	Sub-total of cash outflows of investing activities		**2,278,410**	2,270,206
	Net cash flows from investing activities		**(778,896)**	(1,353,571)
III.	**Cash flows from financing activities**			
	Cash received from capital injections		**15,000**	—
	Including: Capital injection into subsidiaries by non-controlling shareholders		**15,000**	—
	Cash received from borrowings		**12,805,703**	17,485,994
	Sub-total of cash inflows from financing activities		**12,820,703**	17,485,994
	Cash repayments of borrowings		**13,527,730**	12,077,415
	Cash payments for distribution of dividends, profits and for interest expenses		**960,454**	470,649
	Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders		**—**	—
	Sub-total of cash outflows of financing activities		**14,488,184**	12,548,064
	Net cash flows from financing activities		**(1,667,481)**	4,937,930
IV.	**Effect of changes in foreign exchange rate on cash**		**43,517**	(63,316)
V.	**Net decrease in cash and cash equivalents**		**(6,743,944)**	(118,629)
	Add: cash and cash equivalents at the beginning of the year		**22,659,635**	20,662,089
VI.	**Net balance of cash and cash equivalents at the end of the period**	50	**15,915,691**	20,543,460

Balance Sheet

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note X	30 June 2013 (unaudited)	31 December 2012 (audited)
Assets			
Current assets			
Cash		**9,580,383**	16,010,506
Trading financial assets		**43,300**	54,308
Bills receivable		**4,602,494**	3,762,831
Trade receivables	1	**32,799,779**	34,970,056
Factored trade receivables	1	**3,681,305**	3,545,295
Prepayments		**33,739**	44,783
Dividends receivable		**2,191,954**	6,242,066
Other receivables	2	**4,870,012**	4,551,048
Inventories		**5,890,197**	5,668,033
Amount due from customers for contract works		**8,771,505**	8,440,613
Total current assets		**72,464,668**	83,289,539
Non-current assets			
Available-for-sale financial assets	3	**373,555**	323,655
Long-term trade receivables	4	**4,816,775**	3,684,501
Factored long-term trade receivables	4	**3,699,521**	3,582,669
Long-term equity investments	5	**6,319,057**	6,492,492
Investment properties		**1,426,747**	1,381,593
Fixed assets		**4,982,178**	5,083,046
Construction in progress		**79,903**	54,714
Intangible assets		**593,916**	529,864
Deferred development costs		**622,594**	595,205
Deferred tax assets		**605,079**	581,507
Long-term deferred assets		**52,232**	57,993
Other non-current assets		**2,991,284**	3,374,559
Total non-current assets		**26,562,841**	25,741,798
TOTAL ASSETS		**99,027,509**	109,031,337

Balance Sheet (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note X	30 June 2013 (unaudited)	31 December 2012 (audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		**9,760,583**	8,803,325
Trading financial liabilities		**3,391**	42,325
Bank advances on factored trade receivables	1	**3,687,390**	3,548,713
Bills payable		**11,324,487**	13,775,960
Trade payables		**29,532,705**	33,885,695
Amount due to customers for contract works		**2,708,770**	2,600,053
Advances from customers		**1,589,985**	1,765,544
Salary and welfare payables		**617,596**	569,587
Taxes payables		**(1,097,593)**	(1,309,327)
Dividends payable		**152**	152
Other payables		**14,811,810**	16,553,959
Deferred income		**117,130**	133,179
Provisions		**129,469**	159,693
Long-term loans due within one year		**—**	4,518,134
Total current liabilities		**73,185,875**	85,046,992
Non-current liabilities			
Long-term loans		**1,800,000**	—
Bank advances on factored long-term trade receivables	4	**3,699,521**	3,582,669
Bonds payable		**5,987,792**	6,107,993
Deferred tax liabilities		**138,400**	138,400
Other non-current liabilities		**1,372,875**	592,282
Total non-current liabilities		**12,998,588**	10,421,344
Total liabilities		**86,184,463**	95,468,336
Shareholders' equity			
Share capital		**3,440,078**	3,440,078
Capital reserves		**9,332,663**	9,332,663
Surplus reserves		**925,674**	925,674
Retained profits		**(837,940)**	(118,276)
Foreign currency translation differences		**(17,429)**	(17,138)
Total shareholders' equity		**12,843,046**	13,563,001
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**99,027,509**	109,031,337

Income Statement

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note X	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
Operating revenue	6	**33,263,826**	36,570,493
Less: Operating costs	6	**29,822,828**	33,554,892
Taxes and surcharges		**231,938**	281,902
Selling expenses		**2,842,410**	3,523,693
Administrative expenses		**660,204**	643,165
Research and development costs		**911,808**	1,014,836
Finance expenses		**970,492**	453,462
Impairment losses		**672,444**	324,196
Add: Gains/(Losses) from changes in fair values		**90,033**	(21,685)
Investment income	7	**1,749,032**	1,732,161
Including: Share of profits and losses of associates and jointly-controlled entities	7	**(25,908)**	(20,693)
Operating profit/(loss)		**(1,009,233)**	(1,515,177)
Add: Non-operating income		**332,354**	328,349
Less: Non-operating expenses		**35,142**	12,481
Including: Losses on disposal of non-current assets		**3,424**	8,411
Total profit/(loss)		**(712,021)**	(1,199,309)
Less: Income tax		**7,643**	(30,421)
Net profit/(loss)		**(719,664)**	(1,168,888)
Other comprehensive income		**(291)**	922,216
Total comprehensive income		**(719,955)**	(246,672)

Statement of Changes in Equity

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2013 (unaudited)						
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	3,440,078	9,332,663	925,674	(118,276)	–	(17,138)	13,563,001
II. Changes during the period							
(1) Net profit/(loss)	–	–	–	(719,664)	–	–	(719,664)
(2) Other comprehensive income	–	–	–	–	–	(291)	(291)
Total comprehensive income	–	–	–	(719,664)	–	(291)	(719,955)
(3) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	–	–	–	–	–	–	–
2. Equity settled share expenses charged to equity	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–
(4) Profit appropriation							
1. Appropriation to surplus reserves	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–
III. Closing balance at the end of the period	3,440,078	9,332,663	925,674	(837,940)	–	(17,429)	12,843,046

Statement of Changes in Equity (continued)

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Six months ended 30 June 2012 (unaudited)							
	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 period'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 period								
(1) Net profit	–	–	–	–	(1,168,888)	–	–	(1,168,888)
(2) Other comprehensive income	–	922,664	–	–	–	–	(448)	922,216
Total comprehensive income	–	922,664	–	–	(1,168,888)	–	(448)	(246,672)
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	–	–	–	–	–	–	–	–
2. Equity settled share expenses charged to equity	–	3,666	–	–	–	–	–	3,666
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	–	–	–	–	–	–	–	–
III. Closing balance at the end of the period	3,440,078	9,461,007	(40,537)	925,674	140,635	–	(16,797)	13,910,060

Cash Flow Statement

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

	Note X	Six months ended 30 June 2013 (unaudited)	Six months ended 30 June 2012 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**32,379,742**	32,932,537
Refunds of taxes		**2,796,613**	3,206,316
Cash received relating to other operating activities		**384,923**	313,031
Sub-total of cash inflows		**35,561,278**	36,451,884
Cash paid for goods and services		**35,638,529**	34,547,203
Cash paid to and on behalf of employees		**2,226,755**	2,311,533
Cash paid for all types of taxes		**553,086**	429,217
Cash paid relating to other operating activities		**2,795,716**	2,579,575
Sub-total of cash outflows		**41,214,086**	39,867,528
Net cash flows from operating activities	8	**(5,652,808)**	(3,415,644)
II. Cash flows from investing activities			
Cash received from sale of investments		**21,300**	—
Cash received from return on investments		**46,392**	17,187
Cash received from disposal of fixed assets, intangible assets and other long-term assets, net		**3,811**	17,111
Cash received from disposal of subsidiaries		**1,037,401**	—
Sub-total of cash inflows		**1,108,904**	34,298
Cash paid to acquisition of fixed assets, intangible assets and other long term assets		**470,955**	632,496
Cash paid for acquisition of investments		**207,320**	150,502
Sub-total of cash outflows		**678,275**	782,998
Net cash flows from investing activities		**430,629**	(748,700)
III. Cash flows from financing activities			
Cash received from capital injections		**—**	—
Cash received from borrowings		**9,339,536**	13,598,394
Sub-total of cash inflows		**9,339,536**	13,598,394
Cash repayments of borrowings		**9,502,819**	8,215,339
Cash payments for distribution of dividends, profits and interest expenses		**742,920**	330,800
Sub-total of cash outflows		**10,245,739**	8,546,139
Net cash flows from financing activities		**(906,203)**	5,052,255
IV. Effect of changes in foreign exchange rate on cash		**(202,457)**	(36,142)
V. Net increase in cash and cash equivalents		**(6,330,839)**	851,769
Add: cash and cash equivalents at the beginning of the year		**15,276,437**	13,276,732
VI. Net balance of cash and cash equivalents at the end of the period		**8,945,598**	14,128,501

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Jilin Posts and Telecommunications Equipment Company and Hebei Posts and Telecommunications Equipment Company and incorporated in People's Republic of China ("PRC") through a public offering of shares to the general public. As approved under Document Zheng Jian Fa Zi (1997) No. 452 and Document Zheng Jian Fa Zi No. 453 issued by China Securities Regulatory Commission, on 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

In 2003, Shenzhen Zhaoke Investment Development Company Limited transferred its entire shares in the Company to Shenzhen Gaotejia Venture Investment Company Limited. The date of the share transfer was more than three years from the date of establishment of the Company and therefore was in compliance with the applicable provision under the PRC Company Law. In December 2003, Shenzhen Gaotejia Venture Investment Company Limited transferred its entire shares in the Company to Fortune Trust & Investment Company Ltd. Fortune Trust & Investment Company Ltd. transferred its entire shares in the Company to Jade Dragon (Mauritius) Company Limited in November 2005. On 29 December 2006, the shares of the Company owned by Jade Dragon (Mauritius) Company Limited were unlocked.

On 11 November 1997, the Company was registered and established upon approval by Guangdong Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 440301103852869 (revised on 23 February 2009). The Company and its subsidiaries (collectively the "Group") mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized subcontracting of telecommunications projects.

On 9 December 2004, pursuant to a resolution adopted at the Company's second extraordinary general meeting of 2004 and the provision under the revised Articles of Association, and upon approval under Document Guo Zi Gai Ge [2004] No. 865 issued by State-owned Assets Supervision and Administration Commission of the State council and verification and approval under Document Zheng Jian Guo He Zi [2004] No. 38 issued by China Securities Regulatory Commission, the Company made an overseas public offering of 160,151,040 overseas listed foreign invested shares (H Shares), of which 158,766,450 new shares were issued by the Company and 1,384,590 shares were sold by the Company's state-owned corporate shareholders.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

I. CORPORATE BACKGROUND (CONTINUED)

On 28 December 2005, the share reform plan of the Company was formally implemented and completed. On the first trading day subsequent to the implementation of the share reform plan, all original non-tradable shares held by non-tradable shareholders of the Company obtained the right of listing and circulation. As at 31 December 2008, all restricted shares held by the controlling shareholder had been converted into unrestricted shares.

Pursuant to a resolution of the 2007 annual general meeting of the Company, the share capital of the Company was increased by 383,808,660 shares in 2008 by way of capitalization of reserves with the issue of 4 Shares for every 10 Shares on the basis of the Company's share capital of 959,521,650 shares as at 31 December 2007. The registered capital of the Company increased to RMB1,343,330,310 upon completion of the capitalisation.

Pursuant to a resolution of the 2008 annual general meeting of the Company, the share capital of the Company was increased by 402,999,092 shares in 2009 by way of capitalization of reserves with the issue of 3 Shares for every 10 Shares on the basis of the Company's share capital of 1,343,330,310 shares as at 31 December 2008. The registered capital of the Company increased to RMB1,746,329,402 upon completion of the capitalisation.

At the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009, it was ratified that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Phase I Share Incentive Scheme of the Company. After the deduction of Subject Share quota of 43,425 shares which had lapsed, the total number issued share capital of the Company has increased by 85,006,813 shares and the total share capital of the Company in issue following the grant was 1,831,336,215 shares.

On 21 January 2010, the Company completed the placing of its new H shares, pursuant to which 58,294,800 H shares were issued and allotted. Following the issue of new H shares, the total share capital increased from 1,831,336,215 shares to 1,889,631,015 shares.

As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 35.81% of the number of warrants prior to the exercise) had been exercised and a total of 41,851,410 unexercised Warrants were cancelled. Following the exercise of the warrants, the Company's A share capital increased by 21,523,441 shares, and the total share capital of the Company was increased from 1,889,631,015 shares before the exercise to 1,911,154,456 shares after the exercise.

On 4 June 2010, 3,239 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 26,452,094 A shares were unlocked as Subject Shares of the second unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

The implementation of the Company's 2009 profit distribution and capitalisation of capital reserve was completed on 24 June 2010, whereby 5 bonus shares for every 10 shares held were issued based on the number of shares recorded in the shareholders' register on the record date by way of capitalisation of capital reserve. The share capital was increased by a total of 955,577,228 shares as a result, and the total share capital after the capitalisation was 2,866,731,684 shares.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

I. CORPORATE BACKGROUND (CONTINUED)

On 15 December 2010, 763 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the first unlocking of Subjects Shares. A total of 2,520,957 A shares were unlocked as Subject Shares of the first unlocking. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

The implementation of the Company's 2010 profit distribution and capitalisation of capital reserve was completed on 7 July 2011, whereby 2 bonus shares for every 10 shares held were issued based on the number of shares recorded in the shareholders' register on the record date by way of capitalisation of capital reserve. The share capital was increased by a total of 573,346,336 shares as a result, and the total share capital after the capitalisation was 3,440,078,020 shares.

On 21 July 2011, 3,199 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the third unlocking of Subjects Shares. A total of 60,532,063 A shares were unlocked as Subject Shares. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

On 29 December 2011, 752 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 5,230,667 A shares were unlocked as Subject Shares. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

On 24 December 2012, 735 Scheme Participants under the first award of the Phase I Share Incentive Scheme fulfilled the conditions for the second unlocking of Subjects Shares. A total of 6,589,151 A shares were unlocked as Subject Shares. The total number of share capital remained unchanged after the unlocking, although there was a change in the inherent structure of the share capital.

As at 30 June 2013, the total number of the Company's issued share capital on an accumulative basis was 3,440,078,020 shares. Please refer to Note V.34 for details.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 21 August 2013.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

These financial statements have been prepared in accordance with the "Enterprise Accounting Standards — Basic Standards" and 38 specific accounting standards, subsequent practice notes, interpretations and other relevant regulations (collectively "ASBEs") promulgated by the Ministry of Finance in February 2006.

The financial statements are prepared on a going concern basis.

The Group's accounts have been prepared on an accrual basis. All items are recorded by using historical cost as the basis of measurement except for some financial instruments. Impairment provision is made according to relevant regulation if the assets are impaired.

2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2013 and the results of their operations and their cash flows for the first half of the year 2013.

3. Financial year

The financial year of the Group is from 1 January to 31 December of each calendar year.

4. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in thousand of Renminbi, unless otherwise stated.

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

5. Business combination

Business combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Business combination (continued)

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The combining party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being combined. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being combined. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

The excess of the sum of the consideration paid (or equities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements for the year ended 30 June 2013. Subsidiaries are those enterprises or entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All balances, transactions and unrealized profit and loss arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to minority shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to minority interests. A change in minority interests without loss of control is accounted for as an equity transaction.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees will be recognized in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being combined will be recognized in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the average exchange rate for the period when transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The translation differences arising from the settlement and foreign currency monetary items, except those relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of capitalization of borrowing costs, are recognized in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency nonmonetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognized in current profit or loss or other comprehensive income according to the nature of foreign currency monetary items.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognized on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Recognition and derecognition of financial instruments (continued)

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognized when one of the following criteria is met:

(1) The right of receiving the cash flow generated from the financial asset has expired;

(2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognized in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

Classification and valuation of financial assets

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

The subsequent measurement of financial assets is dependent on its classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise trading financial assets and those designated at fair value through profit or loss at inception. Financial assets are classified as trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognized in current profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions and ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortization are recognised in the current profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as other comprehensive income in capital reserves until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

The subsequent measurement of financial liabilities is dependent on its classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivative financial liabilities and those designated at fair value through profit or loss at inception. Financial liabilities are classified as derivative if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value, and all realized or unrealised gain or loss are recognized in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognized as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortization determined in accordance with the income recognition principle.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedging against interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to the income statement, except for those falling under cash flow hedging, which shall be recognized in other comprehensive income.

Bonds cum warrants

Upon issuance, the Group determines in accordance with the terms of the bonds cum warrants whether such bonds cum warrants consist of both equity and liability components. For bonds cum warrants that carry both equity and liability components, liability and equity are separately dealt with upon initial recognition. During the segregation, the fair value of the liability is first determined and recognized. Then the initial recognition of the equity component is determined by deducting the initial liability recognition amount from the overall issue price of the bonds cum warrants. Transaction costs are apportioned between liability and equity components according to their respective fair values. The liability component is presented as liability and subsequently measured on an amortised cost basis, until it is cancelled, converted or redeemed. The equity component is presented as equity and not remeasured in subsequent years.

The fair value of financial instruments

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments without active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willing parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on such financial assets has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. If floating interest rates are used, the current effective interest rate stipulated in the contract shall be adopted as the discount rate in calculating the present value of the future cash flows.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment if there is objective evidence of impairment, and recognizes the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets, for which an impairment loss is individually recognized, are not included in the collective assessment for impairment.

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

Objective evidence of impairment in equity instruments available-for-sale includes a significant or prolonged decline in their fair value. The exercise of judgement is required in determining whether such decline is "significant" or "prolonged." Whether the decline is "significant" or not shall be determined by reference to the extent to which the fair value is lower the cost. Whether the decline is "prolonged" or not shall be determined by reference to the duration in which the fair value is lower than the cost. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognized in other comprehensive income.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed which is recognized in profit or loss.

Assets carried at cost

If financial assets carried at cost are impaired, the impairment loss are recognized in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

For long term equity investments measured using the cost method regulated in "ASBE No. 2 — Longterm equity investments" which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment is also calculated in accordance with the aforementioned principle.

Derecognition of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

10. Accounts Receivable

(1) Individually significant accounts receivable for which separate bad-debt provision is made

The Group conducts impairment tests in respect of its significant account receivables and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Accounts Receivable (continued)

(1) Individually significant accounts receivable for which separate bad-debt provision is made (continued)

An account receivable is considered individually significant if it amounts to 0.1% or above of the total original value of all accounts receivable.

(2) Accounts receivable for which collect bad debt provision is made

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
Over 3 years	100

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognized using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortization method/one-off write-off method.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for impairment of inventories is made and recognized as expenses when the net realizable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

Net realizable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates, as well as equity investments in investees over the Company does not exercise control, common control or significant influence which are not quoted in an active market and the fair value of which cannot be reliably measured.

Long-term equity investments were recorded at initial investment cost on acquisition. The initial investment cost of long-term equity investments derived from business combination through the merger of companies under the common control is measured as the share of the carrying value of the owner's equity of the acquiree. The initial investment cost of long-term equity investments derived from business combination through the merger of companies not under the common control is measured at the acquisition costs (The initial investment cost of the merger of companies not under the common control through multiple transactions in different stages is measured at the sum of the carrying value of equity investments in the acquiree held prior to the date of acquisition and the cost of additional investment on the date of acquisition). Acquisition costs represent the sum of the fair values of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer. The initial investment cost of long-term equity investments acquired other than through business combination is determined in the following manner: where the acquisition is made by cash payment, the initial investment cost is measured at the actual cash payment plus expenses directly related to the acquisition of the long-term investment, tax and other necessary expenses. Where equity securities are issued as consideration, the initial investment cost is measured at the fair value of the equity securities. Where the acquisition is funded by investors, the initial investment cost is measured at the value stipulated in the investment contract or agreement, unless the value so agreed is deemed unfair.

The cost method is used when the Group does not jointly control or has significant influence over the investee, and the long term equity investments are not quoted in active markets, and have no reliably measurable fair values. In the financial statements of the Company, the cost method is used for longterm equity investments in investees over which the Company exercises control. Control is defined as the power to determine the financial and operational policies of a corporation so as to derive gains from the operations of such corporation.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. Other than prices actually paid upon the acquisition or cash dividends or profit included in the consideration which have been declared but not yet paid, cash dividends or profit declared by the invested enterprise are recognized as investment income for the current period. Impairment of longterm investments is considered in accordance with relevant asset impairment policies.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control means sharing control over certain economic activities pursuant to contractual agreements and exists only if significant financial and operational decisions relating to such economic activities require unanimous approval of investing parties sharing such control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments (continued)

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period, and the cost of long-term equity investment is adjusted accordingly.

Under the equity method, after the long-term equity investments are acquired, investment income or losses are recognized and the carrying amount of the long-term equity investment is adjusted to reflect the Group's share of the investee's net profit or loss. When recognizing the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date and in accordance with the Group's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from intertransactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (except that loss from inter-group transactions deemed as asset impairment loss, which shall be fully recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than net profits or losses), and includes the corresponding adjustment in equity.

On disposal of the long-term equity investments, the difference between book value and market price is recognized in profit or loss for the current period. Long-term equity investments accounted for under the equity method and recognised in the shareholders' equity shall be transferred to profit or loss for the current period on a proportionate basis upon disposal.

For details of impairment test methods and impairment provision methods for long-term equity investments in subsidiaries, jointly-controlled entities and associates, please refer to Note II.24. For details of impairment test methods and impairment provision methods for other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II.9.

13. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties and buildings under construction for lease to other parties in future.

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured; otherwise, those expenditure are recognized in profit or loss as incurred.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Investment properties (continued)

Investment properties of the Group represented owned properties reclassified to investment properties measured at fair value. The amount of fair value in excess of the book value as at the date of reclassification is included in the capital reserve. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original book value shall be included in current profit and loss. Fair values are assessed and determined by independent valuers based on open market prices of properties of the same nature or similar and other relevant information.

14. Fixed Assets

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

Fixed assets are initially recognized at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	N/A
Buildings	30–50 years	5%	1.9%–3.17%
Electronic equipment	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

For details of impairment test methods and impairment provision methods for fixed assets, please refer to Note II.24.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including the necessary costs incurred for fixed assets before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

For details of impairment test methods and impairment provision methods for construction in progress, please refer to Note II.24

16. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalization, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalization of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

During capitalization, interest of each accounting period is recognized using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less interest income on any temporary deposits or gains from investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a weighted average interest rate for the general pool to the weighted average expenditure on assets (accumulative asset expenditure less specific loans).

Except for expected suspension under normal situation of qualifying assets, capitalization should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognized as expenses and recorded in the income statement until the construction resumes.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible; assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination and whose fair value can be reliably measured shall be separately recognized as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2–5 years
Technology know-how	3–30 years
Land use rights	50–70 years
Operating concession	3–10 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight line amortization method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortization method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (continued)

For details of impairment test methods and impairment provision methods for intangible assets, please refer to Note II.24.

18. Provisions

Other than contingent consideration in a business combination and contingent liabilities undertaken, the Group recognizes as provision an obligation that is related to contingent matters and fulfils all the following criteria:

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic resources from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

19. Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Revenue

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will flow to the Group, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognized according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

Construction contracts

Construction contract revenue and cost are recognised by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognized on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

Rental income

Rental income generated under operating leases is recognized over the respective periods during the lease term using the straight line method. Contingent rental income is charged to current profit and loss when incurred.

Interest income

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value. Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

21. Income tax

Income taxes include current and deferred tax. Income taxes are recognized in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognizes deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1) Where the taxable temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(1) where the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

22. Leases

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

As lessee of operating leases

Rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

As lesser of operating leases

Rental income under operating leases are recognized as profit/loss for the current period on a straightline basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Hedge accounting

For the purpose of hedge accounting, hedges are classified as: Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in profit or loss.

Amounts recognized in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

24. Impairment

The Group assesses impairment of assets other than inventories, deferred tax assets, financial assets and long-term equity investments under cost accounting which are not quoted in an active market and whose fair value cannot be reliably measured, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Impairment (continued)

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognize impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

25. Employee benefits

Employee benefits represent all kinds of benefits (other than share-based payments) and other relevant expenditures incurred by the Group in exchange for service rendered by employees. During the accounting period when employees provide services, employee benefits payable is recognized as a liability. Items which expire longer than one year after the balance sheet date are measured at present value if the discounting impact is significant.

Defined contribution pension scheme

Employees of the Group participated in contribution pension scheme managed by the local government, including pension scheme, medical insurance, unemployment insurance and housing fund. The contribution costs are charged as asset cost or to current profit or loss when incurred.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Employee benefits (continued)

Defined benefits pension scheme

The Group provides certain employees, who joined the Group before 1 January 2002, with postretirement monthly pension payments. The cost of providing these benefits under the Group's defined benefits pension scheme is actuarially determined and recognized over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees. The Group has not held any plan assets since the commencement of the defined benefits pension scheme, therefore it is not required to make any forecast on asset return.

26. Profit distribution

Cash dividend of the Company is recognized as liability after approval by the general meeting.

27. Related parties

A related party of a company is one who controls or jointly controls or exercises significant influence over that company or is, together with that company, under the control or joint control of another party.

28. Segment reporting

The Group defines its operating segments on the basis of its internal organisational structure, management requirements and internal reporting system. The reporting segments and information to be disclosed in respect of each segment are determined on the basis of the operating segments.

An operating segment is an integral part of the Group satisfying all of the following conditions:

(1) being able to generated income and incur expenses in its day-to-day activities;

(2) the operating results of which can be assessed by the Company's management on a regular basis in order to make decisions about resource allocation and performance assessment;

(3) accounting information of such segment, such as financial conditions, results of operations and cash flow, can be obtained by the Group.

Two or more operating segments with similar economic characteristics and in fulfillment of certain conditions may be consolidated into one operating segment.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the book value of the asset or liability affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Revenue Recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customization and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

1) whether the delivered item has value to the customer on a stand-alone basis; and

2) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element contract can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether the delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

At the inception of the arrangement, contract amounts shall be allocated to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price should be used. If neither VSOE nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine VSOE or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

For instance, the Group sells hardware and post-contract services on a stand-alone basis and therefore we have evidence to establish VSOE for both of sale of goods and post-contract services.

The Group's adoption of appropriate revenue recognition policy for a deliverable involves significant judgement. For instance, the Group has to determine whether post-contract support services is more than incidental to hardware, so as to decided whether the hardware should be accounted for based on multiple-element revenue recognition guidance or general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the ASBE No. 15 Construction Contract, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognized, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

Where hardware does not require significant customisation, and any software is considered incidental, revenue should be recognized under ASBE No.14 — Revenue if: it is probable that the economic benefits associated with the transaction will flow to the Group the amount can be measured reliably; the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and title have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note II. 19 to the consolidated financial statements.

Deferred tax liabilities arising from dividend distribution

The Group is required to recognize deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred income tax liability. See Note V.18.

Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognized and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

Impairment of fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognized when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

Impairment of financial assets

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognized only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

Depreciation and amortization

The Group depreciates items of fixed assets and amortises items of intangible assets on the straightline basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

Deferred development costs

In determining the amount of capitalization, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilize these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognized.

Provision for inventory impairment

The impairment of inventory to its net realizable value is based on the marketability and net realizable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the book value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

Provision for warranty

Provision for warranties is recognised on a best-estimate basis according to the warranty period, supply volume of the product concerned and past data and experience on the performance of warranty services, taking into account risks and uncertainties relating to contingencies and the time value of currency.

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost.

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III. TAXATION

1. Principal tax items and tax rates

Value-added tax	—	Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17% (or 6% for service income within the scope of Value-Added-Tax in Lieu of Business Tax), and value-added tax is payable on the difference after deducting the current balance of tax credit available for offsetting.
Business tax	—	In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income

2. Tax concession and approval documents

The Company was subject to an enterprise income tax rate of 15% for the years 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen.

Xi'an Zhongxing New Software Company Limited, a software enterprise established in December 2009, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fifth profitable year.

Nanjing Zhongxing New Software Company Limited, a software enterprise established in December 2009, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fourth profitable year.

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III. TAXATION

2. Tax concession and approval documents (continued)

ZTE ICT Company Limited, a software enterprise established in September 2009, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fifth profitable year.

Shenzhen Zhongxing Software Company Limited is a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years 2011 to 2012. The enterprise income tax rate applicable to the period was 10%.*

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Mobile Technology Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hi-tech Industrial Park.

Shenzhen Zhongxing Microelectronics Technology Company Limited was a national-grade hi-tech enterprise and an IC Design Enterprise under the National Planning Layout for the years 2011 to 2012. The enterprise income tax rate applicable for the period was 10%.*

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise in Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing ZTEsoft Technology Company Limited was a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years 2011 to 2012. The enterprise income tax rate applicable for the period was 10%.*

Xi'an Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Wuxi Zhongxing Optoelectronics Technologies Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Wuxi State's High-tech Industrial Development Zone.

* The competent PRC government authorities has yet to start the processing of application for the status of Software Enterprise and IC Design Enterprise under the National Planning Layout for the years 2013–2014.

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IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries

Particulars of the principal subsidiaries of the Company are set out as below:

Type of subsidiaries	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at the end of the period	Balance of other items effectively representing net investment	Percentage of shareholding (%) Direct	Percentage of shareholding (%) Indirect	Percentage of voting rights (%)	Whether statements are consolidated	Minority interests
Subsidiaries acquired by way of incorporation or investment													
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB51.08 million	Software development	75250847-2	RMB51.08 million	–	100%	–	100%	Yes	–
ZTE (H.K.) Limited	Hong Kong	Nil	Information technology	HKD995 million	General services	Nil	HKD995 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing Telecom Technology & Science Company Limited	Shenzhen	Fan Qingfeng	Telecommunication services	RMB50 million	Communications engineering and technical services	76199710-8	RMB50 million	–	90%	10%	100%	Yes	–
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB1,755 million	Production of electronic products and accessories	27928567-1	RMB1,755 million	–	100%	–	100%	Yes	–
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB300 million	Systems project outsourcing	74537900-0	RMB240.297 million	–	80.1%	–	80.1%	Yes	239,510
Shenzhen Zhongxing Mobile Technology Company Limited	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB79.166 million	Production and sales of telecommunication products	73205874-2	RMB71.249 million	–	90%	–	90%	Yes	100,312
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10 million	Development and sales of opto electronic products	71869554-2	RMB6.50 million	–	65%	–	65%	Yes	46,069
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication services	RMB10 million	Production and sales of telecommunication products	76223980-0	RMB9 million	–	90%	–	90%	Yes	14,901
Xi'an Zhongxing New Software Company Limited	Xi'an	Hou Weigui	Telecommunications and related equipment manufacturing	RMB600 million	Software development for telecommunication services	68385252-7	RMB600 million	–	100%	–	100%	Yes	–
ZTE (Hangzhou) Company Limited	Hangzhou	He Shiyou	Telecommunications and related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–
ZTE ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB60 million	Design and sale of corporate management hard/software products	68537795-0	RMB54 million	–	90%	–	90%	Yes	60,176

2. Changes in the scope of consolidation

New tier-one subsidiaries established during the period included 深圳市中興雲服務有限公司, 深圳市中興系統集成技術有限公司, 天津中興智聯科技有限公司; new tier-two subsidiaries established during the period included 深圳市中興移動軟件有限公司, ZTE Myanmar Company Limited, 黃岡教育谷投資控股有限公司, Shenzhen ZTE SEECOM Tech Co., Ltd and 深圳市興聯達科技有限公司; New tier-three subsidiaries established during the period included PT ZTE JOYGOR INDONESIA and ZTE (MLVV) LIMITED.

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IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Changes in the scope of consolidation (continued)

The subsidiary deconsolidated during the period was as follows:

	Place of registration	Nature of business	Total shareholding percentage of the Group	Total voting percentage of the Group	Reason for ceasing to be a subsidiary
Shenzhen ZNV Technology Co., Ltd. ("ZNV")	Shenzhen	Production and sales monitoring equipment	90%	90%	Disposal

Note: The Company and ZTE (H.K.) Limited ("ZTE HK", a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Ocean Delight Investments Limited on 28 December 2012 for the disposal of an aggregate of 81% equity interests in ZNV for the USD equivalent of RMB1,292 million. The date of disposal of the equity interests was 16 January 2013 and ZNV was deconsolidated from the Group as from January 2013.

Relevant financial information of ZNV is set out as follows:

	Book value on the date of disposal (Note)
Current assets	1,097,744
Non-current assets	117,893
Current liabilities	(583,425)
	632,212
Minority interests	(63,221)
Fair value of remaining equity interest	(129,184)
Income from disposal	852,567
Consideration for disposal	1,292,374

Note: Given that the period between the date of disposal and 1 January 2013 was relatively short, the effect of profit generated during this period by ZNV was relatively insignificant, and there was no occurrence of material transactions or events, the management of the Company is of the view that the amounts of assets, liabilities and owners' equity as at the date of disposal were little changed from those as at 31 December 2012. Hence, the amount of investment income from the disposal have been calculated by the Company based on the carrying value of ZNV's net assets as at 31 December 2012.

Save as subsidiaries newly incorporated or disposed of during the period as aforesaid, the scope of the consolidated financial statements was consistent with that of the previous year.

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IV. SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Exchange rates for major accounting items of the Group's overseas operation entities

	Average rate		Rate at the end of the period	
	Six months ended 30 June 2013	Six months ended 30 June 2012	**30 June 2013**	31 December 2012
USD	**6.2321**	6.3129	**6.1787**	6.2855
EUR	**8.1856**	8.0168	**8.0536**	8.3176
HKD	**0.8037**	0.8130	**0.7966**	0.8109
GBP	**9.7912**	9.7643	**9.4213**	10.1611
INR	**0.1093**	0.1153	**0.1038**	0.1149
BRL	**2.9299**	3.2558	**2.7891**	3.0706
PKR	**0.0637**	0.0686	**0.0626**	0.0647
IDR	**0.0007**	0.0007	**0.0006**	0.0007
SAR	**1.6619**	1.6835	**1.6477**	1.6761
DZD	**0.0791**	0.0817	**0.0775**	0.0807
JPY	**0.0678**	0.0804	**0.0626**	0.0730
RUB	**0.1969**	0.2068	**0.1876**	0.2061
PLN	**1.9529**	1.8539	**1.8625**	2.0433

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

		30 June 2013			31 December 2012		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash on hand	RMB	**622**	**1.0000**	**622**	174	1.0000	174
	USD	**32**	**6.1787**	**197**	19	6.2855	119
	SAR	**63**	**1.6477**	**104**	140	1.6761	234
	DZD	**3,484**	**0.0775**	**270**	1,859	0.0807	150
	INR	**482**	**0.1038**	**50**	487	0.1149	56
	THB	**281**	**0.1990**	**56**	222	0.2071	46
	PLN	**365**	**1.8625**	**680**	277	2.0433	565
	KZT	**24,496**	**0.0407**	**997**	14,163	0.0418	592
	Others			**199**			187
	Sub-total			**3,175**			2,123

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash (continued)

		30 June 2013			31 December 2012		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	5,375,669	1.0000	5,375,669	11,334,312	1.0000	11,334,312
	USD	1,218,974	6.1787	7,531,676	1,141,645	6.2855	7,175,809
	HKD	196,960	0.7966	156,898	207,493	0.8109	168,256
	BRL	29,886	2.7891	83,356	47,998	3.0706	147,384
	PKR	2,036,991	0.0626	127,510	778,964	0.0647	50,399
	EGP	55,462	0.8789	48,904	4,080	1.0384	4,237
	IDR	127,150,000	0.0006	76,290	40,554,286	0.0007	28,388
	EUR	235,168	8.0536	1,893,946	121,194	8.3176	1,008,047
	DZD	1,149,600	0.0775	89,094	641,611	0.0807	51,778
	MYR	26,721	1.9354	51,715	23,561	2.1017	49,519
	ETB	120,122	0.3281	39,412	54,487	0.3486	18,994
	CAD	28,179	5.9963	168,972	12,228	6.3068	77,119
	GBP	1,470	9.4213	13,850	1,086	10.1611	11,034
	THB	1,054,472	0.1990	209,840	630,053	0.2071	130,484
	RUB	283,236	0.1876	53,135	495,303	0.2061	102,082
	Others			31,906			2,386,278
	Sub-total			15,952,173			22,744,120

		30 June 2013			31 December 2012		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	810,076	1.0000	810,076	675,800	1.0000	675,800
	USD	79,767	6.1787	492,858	90,695	6.2855	570,064
	Others			63,728			134,316
	Sub-total			1,366,662			1,380,180
	Total			17,322,010			24,126,423

As at 30 June 2013, the Group's cash subject to ownership restriction amounted to RMB1,366,662,000 (31 December 2012: RMB1,380,180,000), including acceptance bill deposits of RMB135,655,000 (31 December 2012: RMB237,054,000), letter of credit deposits of RMB145,393,000 (31 December 2012: RMB38,882,000), guarantee letter deposits of RMB148,057,000 (31 December 2012: RMB288,561,000), deposit provision of RMB506,115,000 (31 December 2012: RMB404,736,000) and risk compensation fund to be released within one year of RMB431,442,000 (31 December 2012: RMB410,947,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash (continued)

Under the loan agreements or factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2013, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,289,895,000 (31 December 2012: RMB3,568,024,000). Risk compensation fund to be released within one year amounting to RMB431,442,000 (31 December 2012: RMB410,947,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB2,858,453,000 (31 December 2012: RMB3,157,077,000) was accounted for as other non-current assets.

As at 30 June 2013, the Group's overseas currency deposits amounted to RMB6,238,365,000 (31 December 2012: RMB5,572,193,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for time deposits varies from 7 days to 1 year. The time deposits earn interest income based on corresponding time deposits interest rate, subject to the Group's cash needs. Time deposits with a term of over three months amounting to RMB39,657,000 (31 December 2012: RMB86,608,000) were not included in cash and cash equivalents. Such time deposits included time deposit notes amounting to RMB15,000,000 pledged by Netex Cayman Holdings Co.Ltd as security for a RMB12,357,000 loan.

2. Trading financial assets

	30 June 2013	31 December 2012
Financial assets at fair value through profit or loss	**15,340**	44,919
Derivative financial assets	**89,149**	61,378
	104,489	106,297

3. Bills receivable

	30 June 2013	31 December 2012
Commercial acceptance bills	**2,663,116**	1,577,628
Bank acceptance bills	**3,074,066**	2,704,592
	5,737,182	4,282,220

As at 30 June 2013, there was no bill which had been reclassified as trade receivables as a result of the issuers' default (31 December 2012: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Bills receivable (continued)

As at 30 June 2013, the balance of bills receivable comprised an amount of RMB32,652,000 (31 December 2012: Nil) owed from shareholders or related parties holding 5% or more in the voting shares of the Company. Please refer to Note VI. "The relationships and transactions with related parties".

As at 30 June 2013, there were no bills endorsed to other parties but not yet due (31 December 2012: Nil).

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that substantially all risks and rewards relating to bills receivable with a carrying amount of RMB527,841,000 had been transferred and therefore the conditions for derecognising financial assets had been fulfilled. Accordingly, the relevant bills receivable were derecognised in full at their carrying value on the date of discounting. The maximum exposure to loss from the Group's continuing involvement in the endorsed bills and the undiscounted cash flows to repurchase these bills equal to their carrying amounts. The Group is of the view that the fair values of the Group's continuing involvement in the bills receivable are not significant. During the Relevant Periods, the Group did not recognize any gain or loss in respect of derecognised bills receivable on the date of transfer. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. Moreover, not substantially all risks and rewards relating to certain bills receivable were transferred upon discounting and therefore the conditions for derecognising financial assets were not fulfilled. As at 30 June 2013, the carrying value of discounted bills receivable not qualified for derecognition of financial assets amounted to RMB330,947,000 (31 December 2012: RMB603,051,000). Out of this amount, commercial acceptances with a carrying value of RMB224,000 (31 December 2012: RMB500,000,000) were discounted to secure short term loans. Bank acceptances with an amount of RMB330,723,000 were discounted to secure short term loans (31 December 2012: RMB103,051,000).

As at 30 June 2013, bank acceptances with a book value of RMB13,603,000 owner pledged as security for short term loans (31 December 2012: RMB14,178,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0 to 90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

	30 June 2013			31 December 2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**7,182,285**	**1.0000**	**7,182,285**	4,930,626	1.0000	4,930,626
USD	**1,327,450**	**6.1787**	**8,201,916**	1,487,099	6.2855	9,347,163
EUR	**282,078**	**8.0536**	**2,271,743**	330,035	8.3176	2,745,097
BRL	**100,877**	**2.7891**	**281,356**	177,949	3.0706	546,410
THB	**1,442,658**	**0.1990**	**287,089**	989,601	0.2071	204,946
INR	**14,695,029**	**0.1038**	**1,525,344**	17,030,601	0.1149	1,956,816
Others			**2,358,580**			2,337,118
			22,108,313			22,068,176

Aging analysis of trade receivables was as follows:

	30 June 2013	31 December 2012
Within 1 year	**20,482,626**	21,223,530
1 to 2 years	**2,680,918**	1,572,612
2 to 3 years	**763,069**	906,071
Over 3 years	**1,609,458**	1,260,574
	25,536,071	24,962,787
Less: bad debt provision for trade receivables	**3,427,758**	2,894,611
	22,108,313	22,068,176

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables (continued)

Please refer to Note V. 19 for details of movements in bad debt provision for trade receivables for the period.

	30 June 2013				31 December 2012			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	531,712	2	531,712	100	554,861	2	554,861	100
For which bad debt provision has been collectively made								
0–6 months	16,424,078	64	—	—	17,805,093	72	—	—
7–12 months	4,056,573	16	64,224	2	3,362,458	13	214,545	6
13–18 months	1,993,340	8	646,951	32	1,001,150	4	245,689	25
19–24 months	652,145	2	361,515	55	483,963	2	231,499	48
2–3 years	700,734	3	645,867	92	860,004	3	752,759	88
Over 3 years	1,177,489	5	1,177,489	100	895,258	4	895,258	100
	25,004,359	98	2,896,046	12	24,407,926	98	2,339,750	10
	25,536,071	100	3,427,758	13	24,962,787	100	2,894,611	12

As at 30 June 2013, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	176,824	176,824	100%	Debtor running into serious financial difficulties
Overseas carriers 2	162,422	162,422	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,737	77,737	100%	Debtor running into serious financial difficulties
Others	114,729	114,729	100%	Debtor running into serious financial difficulties
	531,712	531,712	100%	

For the first half of 2013, recovery of individually significant trade receivables for which individual provision for bad debts had been made amounted to RMB1,744,000 and there was no write-back or write-off (2012: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables (continued)

Top 5 accounts of trade receivables as at 30 June 2013 were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	2,929,056	11.47%
Customer 2	2,867,248	11.23%
Customer 3	2,169,551	8.50%
Customer 4	402,544	1.58%
Customer 5	233,603	0.91%
Total	8,602,002	33.69%

The above trade receivables from top five accounts represent amounts receivable from third-party customers of the Group and were aged within 36 months.

As at 30 June 2013, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB45,611,000 (31 December 2012: RMB103,828,000), accounting for 0.18% (31 December 2012: 0.42%) of the total amount of trade receivables. Please refer to Note VI "The relationships and transactions with related parties". No bad debt provision was being made in respect of the aforesaid due from shareholders or related parties holding 5% or more in the voting shares.

As at 30 June 2013, trade receivables of the Group with a book value of RMB750,000,000 (31 December 2012: RMB950,000,000) were subject to ownership restriction as they were pledged as security for loans.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2013, trade receivables that had been transferred but not settled by the debtors amounted to RMB5,996,888,000 (31 December 2012: RMB6,412,550,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables (continued)

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognized to the extent of trade receivables transferred under continuous involvement. As at 30 June 2013, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB10,999,108,000. The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables RMB'000
Carrying value of assets under continuous involvement	2,039,758
Carrying value of liabilities under continuous involvement	2,045,843

Factored trade receivables that did not qualify for derecognition and factored trade receivables recognized according to the extent of continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 30 June 2013, the amount of factored trade receivables was RMB8,036,646,000 (31 December 2012: RMB8,183,998,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2013, the amount of bank advances on factored trade receivables was RMB8,042,731,000 (31 December 2012: RMB8,187,416,000).

5. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2013	31 December 2012
Within 1 year	**1,332,018**	1,850,113
1 to 2 years	**222,212**	101,510
2 to 3 years	**106,369**	51,854
Over 3 years	**7,919**	15,864
	1,668,518	2,019,341
Less: bad debt provision for other receivables	**—**	—
	1,668,518	2,019,341

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other receivables (continued)

Top 5 accounts of other receivables as at 30 June 2013 were as follows:

Due from:	Amount	As a percentage of total amount of other receivables
Third-party entity 1	26,563	1.59%
Third-party entity 2	22,486	1.35%
Third-party entity 3	18,139	1.09%
Third-party entity 4	13,694	0.82%
Third-party entity 5	12,002	0.72%
Total	92,884	5.57%

The above other receivables from top five accounts represent amounts receivable from third parties of the Group and were aged between 0–36 months.

As at 30 June 2013, other receivables included receivables due from shareholders or related parties holding 5% or more in the voting shares amounted to RMB10,857,000 (31 December 2012: RMB4,924,000) and the balance of loans granted to related parties by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") amounting to RMB58,156,000 and balance of discounted bills amounting to RMB6,828,000 (31 December 2012: loan balance of RMB48,900,000 and balance of discounted bills of RMB47,872,000). For details please refer to Note VI. "Relationships and Transactions with Related Parties".

6. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2013		31 December 2012	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**920,456**	**100%**	742,551	100%

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Prepayments (continued)

Top 5 accounts of prepayments as at 30 June 2013 were as follows:

Supplier	**Amount**	**As a percentage of total amount of prepayments**
Supplier 1	147,840	16.06%
Supplier 2	71,439	7.76%
Supplier 3	36,695	3.99%
Supplier 4	32,062	3.48%
Supplier 5	27,370	2.97%
Total	315,406	34.26%

As at 30 June 2013, RMB149,801,000 (31 December 2012: RMB148,681,000) in the balance was prepayments made to shareholders or related parties holding 5% or more in the voting shares. For details please refer to Note VI "The relationships and transactions with related parties".

7. Inventories

	30 June 2013			31 December 2012		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Raw materials	**4,236,959**	**417,769**	**3,819,190**	3,516,391	307,303	3,209,088
Materials under sub-contract processing	**71,994**	**8,821**	**63,173**	151,706	1,189	150,517
Work-in-progress	**1,177,054**	**46,853**	**1,130,201**	968,472	49,187	919,285
Finished goods	**2,662,521**	**382,724**	**2,279,797**	3,340,073	356,370	2,983,703
Dispatch of goods	**4,837,028**	**552,278**	**4,284,750**	4,609,611	429,815	4,179,796
	12,985,556	**1,408,445**	**11,577,111**	12,586,253	1,143,864	11,442,389

Please refer to Note V.19 for details of movements in the provision for impairment of inventory during the period.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Amount due from/to customers for contract works

	30 June 2013	31 December 2012
Amount due from customers for contract works	**14,133,330**	13,666,100
Amount due to customers for contract works	**(3,686,669)**	(3,459,545)
	10,446,661	10,206,555
Contract costs incurred plus recognized profits to date	**42,932,387**	43,111,813
Less: estimated loss	**87,758**	193,877
Progress billings	**32,397,968**	32,711,381
	10,446,661	10,206,555

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

9. Available-for-sale financial assets

	30 June 2013	31 December 2012
Available-for-sale equity instruments	**1,464,647**	1,092,335

10. Held-to-maturity investments

	30 June 2013	31 December 2012
Held-to-maturity investments	**160,505**	—

Held-to-maturity investments represented the convertible bonds issued by China All Access (Holdings) Limited purchased by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company. The Company intends to hold the convertible bonds to maturity.

11. Long-term receivables

	30 June 2013	31 December 2012
Installment payments for the provision of telecommunication system construction projects	**798,016**	1,291,443
Less: Bad debt provision for long-term receivables	**80,989**	84,801
	717,027	1,206,642

Please refer to Note V.19 for details of movements in bad debt provision for long-term receivables for the period.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Investments in jointly-controlled entities and associates

30 June 2013

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation code
Jointly-controlled entities						
Bestel Communications Ltd.	Company with limited liability	Republic of Cyprus	Stathis Kittis	Information technology	EUR446,915	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
Associates						
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB4,000,000	67574463-0
思卓中興（杭州）科技有限公司	Company with limited liability	China	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Ho Bo	Computer application services	RMB15,000,000	77585307-6
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer application services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	China	Zhang Dazhong	Advertisements, internet, communications, imports and exports	RMB10,000,000	58213499-9
深圳市遠行科技有限公司	Company with limited liability	China	Wu Yihai	Computer application services	RMB10,000,000	77030180-3
Telecom Innovations	Company with limited liability	Uzbekistan	Aliev F.A.	Sales and production of communications equipment	USD2,875,347.3	Nil
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Company with limited liability	China	Zeng Li	Hotel Management Company Limited	RMB30,000,000	69252850-X
北京億科三友科技發展有限公司	Company with limited liability	China	J. ZHANG	Computer application services	RMB34,221,649	74610229-X
無錫鴻圖微電子技術有限公司	Company with limited liability	China	Leng Jing	Integrated circuit design	RMB32,386,255	05345775-X
興天通訊技術（天津）有限公司	Company with limited liability	China	Shi Ligong	Communications industry and related operations	RMB20,000,000	05525232-8
南京皓信達訊網絡科技有限公司	Company with limited liability	China	MARK BRIAN WHITE	Development and sales of network software and related technical services	USD2,000,000	05328848-2
中興九城網絡科技無錫有限公司	Company with limited liability	China	Zeng Xuezhong	Computer Application Services	RMB10,000,000	06187686-6

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Investments in jointly-controlled entities and associates (continued)

30 June 2013 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the period	Net profit Amount for the period
Jointly-controlled entities					
Bestel Communications Ltd.	4,606	96	4,510	—	—
普興移動通訊設備有限公司	216,986	182,399	34,587	93,468	79
Associates					
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company	234,532	183,444	51,088	182,925	2,236
北京中鼎盛安科技有限公司	1,912	1,989	(77)	—	(619)
思卓中興（杭州）科技有限公司	39,949	131	39,818	—	334
上海中興群力信息科技有限公司	64,670	13,262	51,408	—	(906)
Zhongxing Energy Company Limited	3,129,044	1,549,486	1,579,558	219,562	(98,844)
ZTE Software Technology (Nanchang) Company Limited	67,047	68,043	(996)	6,356	(3,585)
Nanjing Piaoxun Network Technology Company Limited	38	114	(76)	—	(2)
上海歡流傳媒有限公司	7,206	191	7,015	1,733	(1,419)
深圳市遠行科技有限公司	22,554	14,383	8,171	8,742	(6,180)
Telecom Innovations	52	33	19	—	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	54,768	28,828	25,940	53,391	(4,597)
北京億科三友科技發展有限公司	13,195	11,998	1,197	2,974	(4,271)
無錫鴻圖微電子技術有限公司	82,207	23,726	58,481	11,821	(2,358)
興天通訊技術（天津）有限公司	21,292	7,090	14,202	2,143	(5,361)
南京皓信達訊網絡科技有限公司	12,357	—	12,357	—	—
中興九城網絡科技無錫有限公司	10,000	—	10,000	—	—

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Investments in jointly-controlled entities and associates (continued)

31 December 2012

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation code
Jointly-controlled entities						
Bestel Communications Ltd.	Company with limited liability	Republic of Cyprus	Stathis Kittis	Information technology	EUR446,915	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
Associates						
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB4,000,000	67574463-0
思卓中興（杭州）科技有限公司	Company with limited liability	China	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Ho Bo	Computer application services	RMB15,000,000	77585307-6
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer application services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	China	Zhang Dazhong	Advertisements, internet, communications, imports and exports	RMB5,000,000	58213499-9
深圳市遠行科技有限公司	Company with limited liability	China	Wu Yihai	Computer application services	RMB10,000,000	77030180-3
Telecom Innovations	Company with limited liability	Uzbekistan	Aliev F.A.	Sales and production of communications equipment	USD2,875,347.3	Nil
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Company with limited liability	China	Zeng Li	Hotel management services	RMB30,000,000	69252850-X
北京億科三友科技發展有限公司	Company with limited liability	China	J. ZHANG	Computer application services	RMB34,221,649	74610229-X
無錫鴻圖微電子技術有限公司	Company with limited liability	China	Leng Jing	Integrated circuit design	RMB62,860,000	05345775-X
興天通訊技術（天津）有限公司	Company with limited liability	China	Shi Ligong	Communications industry and related operations	RMB20,000,000	05525232-8

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Investments in jointly-controlled entities and associates (continued)

31 December 2012 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the year	Net profit Amount for the year
Jointly-controlled entities					
Bestel Communications Ltd.	4,606	96	4,510	—	—
普興移動通訊設備有限公司	280,386	245,877	34,509	257,770	1,238
Associates					
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company	241,834	193,521	48,313	331,498	4,079
北京中鼎盛安科技有限公司	1,348	806	542	4,770	(51)
思卓中興（杭州）科技有限公司	39,615	131	39,484	—	(823)
上海中興群力信息科技有限公司	64,670	12,356	52,314	44,787	1,784
Zhongxing Energy Company Limited	3,020,226	1,310,264	1,709,962	279,465	203,420
ZTE Software Technology (Nanchang) Company Limited	144,790	142,002	2,788	101,551	68,903
Nanjing Piaoxun Network Technology Company Limited	40	114	(74)	60	(174)
上海歡流傳媒有限公司	4,193	768	3,425	5,944	58
深圳市遠行科技有限公司	34,471	20,120	14,351	21,801	(9,068)
Telecom Innovations	52	33	19	9	2
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	40,909	10,372	30,537	68,359	824
北京億科三友科技發展有限公司	13,106	7,638	5,468	6,738	(4,560)
無錫鴻圖微電子技術有限公司	60,228	5,446	54,782	1,011	(498)
興天通訊技術（天津）有限公司	20,000	—	20,000	—	—

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Long-term equity investments

		30 June 2013	31 December 2012
Equity method			
Jointly-controlled entities	(1)	46,854	46,814
Associates	(2)	388,263	408,954
		435,117	455,768

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Bestel Communications Ltd.	2,050	2,255	–	2,255	50.00%	50.00%	–
普興移動通訊設備有限公司*	43,500	44,559	40	44,599	33.85%	50.00%	–
		46,814	40	46,854			

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Long-term equity investments (continued)

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
KAZNURTEL Limited Liability Co	3,988	2,477	–	2,477	49.00%	49.00%	–
Wuxi Kaier Technology Company	7,922	21,374	953	22,327	42.64%	42.64%	–
北京中鼎盛安科技有限公司	1,960	626	(304)	322	49.00%	49.00%	–
思卓中興（杭州）科技有限公司	22,845	19,455	162	19,617	49.00%	49.00%	–
上海中興群力信息科技有限公司	2,000	12,152	(363)	11,789	40.00%	40.00%	–
Zhongxing Energy Company Limited	300,000	302,793	(23,230)	279,563	23.26%	23.26%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	836	(836)	–	30.00%	30.00%	–
Nanjing Piaoxun Network Technology Company Limited	533	62	–	62	20.00%	20.00%	–
上海歡流傳媒有限公司	3,300	1,566	1,182	2,748	33.00%	33.00%	–
深圳市遠行科技有限公司	1,850	4,116	(1,546)	2,570	25.00%	25.00%	–
Telecom Innovations	4,082	4,322	(206)	4,116	27.70%	27.70%	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	5,400	5,548	(827)	4,721	18.00%	40.00%	–
北京億科三友科技發展有限公司	6,844	5,932	(854)	5,078	20.00%	20.00%	–
無錫鴻圖微電子技術有限公司	21,826	21,826	(764)	21,062	32.42%	32.42%	–
興天通訊技術（天津）有限公司	6,000	5,869	(1,608)	4,261	30.00%	30.00%	–
南京皓信達訊網絡科技有限公司	4,200	–	4,200	4,200	25.00%	25.00%	–
中興九城網絡科技無錫有限公司	3,350	–	3,350	3,350	33.50%	33.50%	–
		408,954	(20,691)	388,263			–

* In the case of each of 普興移動通訊設備有限公司 and Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, the Group's shareholding percentage is inconsistent with its voting rights in the investee, as the proportion of voting rights has in each case been stipulated by the respective articles of association of each company.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Investment properties

	Opening balance	New addition during the period	Change in fair value during the period	Closing balance
Completed investment properties	633,289	—	10,824	644,113
Investment properties in progress	1,052,869	25,498	42,920	1,121,287
	1,686,158	25,498	53,744	1,765,400

Active property trading markets existed in the places where the Group's investment properties were located, therefore market rental prices of similar properties and other relevant information may be obtained in the property trading markets, so as to arrive at scientific and reasonable estimates on the fair value of the investment properties. The valuation was conducted by 天健國衆聯資產評估土地房地產估價有限公司 of Shenzhen using the income method by reference to current leases or objective market transaction prices for similar properties in neighboring regions and discounted amounts of expected future income. The fair value as at 30 June 2013 was RMB1,765,400,000 and the change in fair value for the period was RMB53,744,000. For details please refer to Note V.41.

As at 30 June 2013, ownership registration certificates had yet to be obtained for investment properties of the Group with a total book value of RMB1,207,911,000 (31 December 2012: total book value of RMB1,136,244,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Fixed assets

	Opening balance	Increase during the period	Decrease during the period	Exchange rate adjustments	Closing balance
Cost					
Buildings	4,729,684	925,148	(82,614)	(24,287)	5,547,931
Freehold land	71,672	—	—	(6,570)	65,102
Electronic equipment	3,633,073	293,202	(216,665)	(11,001)	3,698,609
Machinery equipment	2,351,935	87,841	(62,787)	(13,116)	2,363,873
Vehicles	348,045	4,282	(11,605)	(1,986)	338,736
Other equipment	226,289	12,953	(2,291)	(6,995)	229,956
	11,360,698	1,323,426	(375,962)	(63,955)	12,244,207
Accumulated depreciation					
Buildings	660,464	64,360	(6,278)	(17,504)	701,042
Freehold land	—	—	—	—	—
Electronic equipment	2,098,494	282,193	(100,085)	(6,529)	2,274,073
Machinery equipment	1,221,680	93,298	(54,166)	(7,169)	1,253,643
Vehicles	166,988	15,889	(4,646)	(1,243)	176,988
Other equipment	114,389	16,904	(1,186)	(3,561)	126,546
	4,262,015	472,644	(166,361)	(36,006)	4,532,292
Provision for impairment					
Buildings	—	—	—	—	—
Freehold land	—	—	—	—	—
Electronic equipment	—	—	—	—	—
Machinery equipment	2,059	—	—	(36)	2,023
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	2,059	—	—	(36)	2,023
Net book value					
Buildings	4,069,220	860,788	(76,336)	(6,783)	4,846,889
Freehold land	71,672	—	—	(6,570)	65,102
Electronic equipment	1,534,579	11,009	(116,580)	(4,472)	1,424,536
Machinery equipment	1,128,196	(5,457)	(8,621)	(5,911)	1,108,207
Vehicles	181,057	(11,607)	(6,959)	(743)	161,748
Other equipment	111,900	(3,951)	(1,105)	(3,434)	103,410
	7,096,624	850,782	(209,601)	(27,913)	7,709,892

Depreciation for the six months ended 30 June 2013 amounted to RMB472,644,000 (six months ended 30 June 2012: RMB499,438,000).

For the six months ended 30 June 2013, transfer from construction in progress to fixed assets amounted to RMB897,000,000 (six months ended 30 June 2012: RMB754,419,000) at cost.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Fixed assets (continued)

For the six months ended 30 June 2013, no fixed assets were transferred to investment properties (six months ended 30 June 2012: RMB270,004,000).

As at 30 June 2013, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2012: Nil); as at 30 June 2013, houses and buildings with a book value of RMB683,394,000 were subject to ownership restrictions, as they had been pledged as security for borrowings (31 December 2012: nil).

As at 30 June 2013, no machinery and equipment were subject to ownership restrictions as they had been pledged as security for borrowings(31 December 2012: RMB225,208,000).

As at 30 June 2013, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2012: nil).

As at 30 June 2013, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an, Anhui in the PRC with a net book value of approximately RMB4,104,209,000 (31 December 2012: RMB3,464,499,000).

16. Construction in progress

	Budget	Opening balance	Increase during the period	Transfer to fixed assets during the period	Closing balance	Source of funds
Staff quarters	Nil	32,946	5,216	–	38,162	Internal resources
Sanya R&D Base project	Nil	3,603	810	–	4,413	Internal resources
Equipment installation	Nil	38,389	–	–	38,389	Internal resources
Phase I Works, Xi'an Zone 2	Nil	683,394	291,722	897,000	78,116	Internal resources
Site A10 Project, Xi'an Technology Park	Nil	8,995	464	–	9,459	Internal resources
C3 R&D Centre, Technology Park	Nil	15,861	4,038	–	19,899	Internal resources
Phase I, Heyuan Production R&D Training Base	Nil	9,459	3,996	–	13,455	Internal resources
Phase II Work, North Zone, Industry Park	Nil	94	–	–	94	Internal resources
Phase 1 Works, Nanjing Zone 3	Nil	–	508	–	508	Internal resources
Phase 2 Works, Nanjing Zone 2	Nil	–	161	–	161	Internal resources
Others	Nil	31,646	59,208	–	90,854	Internal resources
Total:		824,387	366,123	897,000	293,510	

As at 30 June 2013, there was no capitalized interest amount in the balance of the construction in progress (31 December 2012: Nil).

As at 30 June 2013, no construction in progress was subject to ownership restrictions (31 December 2012: construction in progress with a total book value of RMB683,394,000 had been pledged as security borrowings).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Intangible assets

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Cost				
Software	438,971	27,705	(41,189)	425,487
Technology know-how	10,689	—	—	10,689
Land use rights	990,174	120,985	(7,702)	1,103,457
Operating concessions	222,905	104,794	—	327,699
	1,662,739	253,484	(48,891)	1,867,332
Accumulated amortisation				
Software	312,928	26,301	(31,178)	308,051
Technology know-how	4,831	594	—	5,425
Land use rights	74,824	9,365	(462)	83,727
Operating concessions	176,796	31,078	—	207,874
	569,379	67,338	(31,640)	605,077
Net book value				
Software	126,043	1,404	(10,011)	117,436
Technology know-how	5,858	(594)	—	5,264
Land use rights	915,350	111,620	(7,240)	1,019,730
Operating concessions	46,109	73,716	—	119,825
	1,093,360	186,146	(17,251)	1,262,255
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Carrying value				
Software	126,043	1,404	(10,011)	117,436
Technology know-how	5,858	(594)	—	5,264
Land use rights	909,028	111,620	(7,240)	1,013,408
Operating concessions	46,109	73,716	—	119,825
	1,087,038	186,146	(17,251)	1,255,933

Amortisation for the six months ended 30 June 2013 amounted to RMB67,338,000 (six months ended 30 June 2012: RMB67,130,000).

As at 30 June 2013, intangible assets with a total book value of RMB23,910,000 were subject to ownership restrictions as they had been pledged as security for borrowings(31 December 2012: RMB24,171,000).

As at 30 June 2013, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya, Nanjing and Xi'an in the PRC, with a net carrying value of approximately RMB472,203,000 (31 December 2012: RMB476,871,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Intangible assets (continued)

For the six months ended 30 June 2013, no land use rights were reclassified as investment properties (six months ended 30 June 2012:RMB37,452,000).

Deferred development costs are analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	**291,077**	**122,166**	**42,491**	**370,752**
System products	**2,155,857**	**315,368**	**202,936**	**2,268,289**
	2,446,934	**437,534**	**245,427**	**2,639,041**

For the six months ended 30 June 2013, deferred development costs accounted for 10.8% of total research and development costs (six months ended 30 June 2012: 8.6%).

18. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities were not presented as a net amount after offsetting:

Deferred tax assets and liabilities recognised:

	30 June 2013	31 December 2012
Deferred tax assets		
Unrealised profits arising on consolidation	**117,017**	148,805
Provision for impairment in inventory	**107,546**	109,550
Foreseeable contract losses	**485**	2,640
Amortisation of deferred development cost	**69,310**	60,990
Provision for warranties and returned goods	**26,009**	28,101
Provision for retirement benefits	**8,778**	8,902
Deductible tax losses	**485,039**	499,344
Accruals	**175,676**	171,683
Overseas taxes pending deduction	**203,682**	188,590
	1,193,542	1,218,605

	30 June 2013	31 December 2012
Deferred tax liabilities		
Appreciation of fixed assets, construction in progress and land use rights upon valuation	**(139,900)**	(139,900)
	1,053,642	1,078,705

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Provision for impairment of assets

			Decrease during the period		
	Opening balance	Provision for the period	Write-back	Write-off	Closing balance
Bad debt	2,979,412	678,315	(51,068)	(97,912)	3,508,747
Including: Trade receivables	2,894,611	678,315	(50,190)	(94,978)	3,427,758
Long term trade receivables	84,801	—	(878)	(2,934)	80,989
Provision for impairment of inventories	1,143,864	324,699	(25,258)	(34,860)	1,408,445
Provision for impairment of fixed assets	2,059	—	—	(36)	2,023
Provision for impairment of intangible assets	6,322	—	—	—	6,322
	4,131,657	1,003,014	(76,326)	(132,808)	4,925,537

The Group determines at the balance sheet whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss.

20. Short-term loans

		30 June 2013		31 December 2012		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	4,917,000	4,917,000	2,013,000	2,013,000	
	USD	1,217,289	7,521,266	1,463,901	9,201,347	
	INR	2,863,087	297,146	2,309,334	265,416	
Guaranteed loans	RMB	154,129	154,129	—	—	
	USD	—	—	895,207	5,626,824	
Bill discounted loans	RMB	330,947	330,947	603,051	603,051	Note 1
Pledged loans	RMB	400	400	213,969	213,969	Note 2
	USD	2,044	12,626	—	—	
			13,233,514		17,923,607	

As at 30 June 2013, the annual interest rate of the above loans ranged from 1.30%-14% (31 December 2012: 1.30%–12.75%).

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20. Short-term loans (continued)

Note 1: Bill discounted loans were loans discounted by bank acceptance bills and commercial acceptance bills.

Note 2: Pledged loans were loans pledged by trade receivables and bank acceptance bills.

21. Derivative financial liability

	30 June 2013	31 December 2012
Derivative financial liability	10,038	99,630
Hedging instruments — current portion	5,916	6,109
	15,954	105,739

22. Bill payable

	30 June 2013	31 December 2012
Bank acceptance bills	3,942,057	6,069,555
Commercial acceptance bills	5,135,673	5,408,547
	9,077,730	11,478,102

Amount of bill payable due in the next accounting period will be RMB9,077,730,000 (31 December 2012: RMB11,478,102,000). As at 30 June 2013, RMB2,267,000 due to shareholders holding 5% or more in the voting shares were included in bills payable (31 December 2012: RMB2,844,000). Please refer to Note VI "The relationships and transactions with related parties".

23. Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2013	31 December 2012
0 to 6 months	17,434,078	17,605,286
7 to 12 months	106,220	177,299
1 to 2 years	213,460	267,454
2 to 3 years	34,468	31,811
Over 3 years	38,916	34,027
	17,827,142	18,115,877

Trade payables are interest-free and repayable normally within 6 months.

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23. Trade payables (continued)

As at 30 June 2013, trade payables included amounts due to shareholders holding 5% or more in the voting shares amounting to RMB123,833,000 (31 December 2012: RMB220,873,000). Please refer to Note VI "The relationships and transactions with related parties".

24. Advances from customers

	30 June 2013	31 December 2012
Advanced payments for system project work	2,434,661	1,886,887
Advanced payments for terminals	913,277	1,219,751
	3,347,938	3,106,638

As at 30 June 2013, advances from customers included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB40,058,000 (31 December 2012: RMB6,618,000). Please refer to Note VI "The relationships and transactions with related parties".

25. Salary and welfare payables

	Opening balance	Accruals during the period	Payments during the period	Closing balance
Salary, bonus and allowance	1,440,042	4,768,876	4,852,224	1,356,694
Staff welfare	19,891	273,678	284,030	9,539
Social insurance	56,292	639,513	548,977	146,828
Including: Pension Insurance	40,650	413,879	348,702	105,827
Medical Insurance	15,250	171,541	147,013	39,778
Unemployment Insurance	(78)	27,613	27,388	147
Working Injuries Insurance	205	11,929	11,599	535
Maternity Insurance	265	14,551	14,275	541
Housing funds	27,182	338,487	305,467	60,202
Labour union fund and employee education fund	803,119	160,147	84,510	878,756
	2,346,526	6,180,701	6,075,208	2,452,019

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Tax payable

	30 June 2013	31 December 2012
Value-added tax	**(1,501,150)**	(2,465,186)
Business tax	**152,243**	559,338
Income tax	**616,043**	608,336
PRC tax	**335,577**	271,213
Overseas tax	**280,466**	337,123
Individual income tax	**48,614**	76,259
City maintenance and construction tax	**41,727**	43,217
Education surcharge	**31,019**	29,602
Other taxes	**(8,915)**	(13,540)
	(620,419)	(1,161,974)

27. Dividend payable

	30 June 2013	31 December 2012
Dividend payable to holders of restricted shares	**152**	152
Dividend payable to minority shareholders	**115,960**	205,631
	116,112	205,783

28. Other payables

	30 June 2013	31 December 2012
Accruals	**589,313**	539,104
Contributions to staff housing	**22,735**	614,189
Payables to external parties	**4,808,758**	6,080,349
Deposits	**27,580**	22,197
Factored interests payable	**97,874**	104,356
Payables to employees	**429,013**	406,003
Others	**173,081**	360,995
	6,148,354	8,127,193

As at 30 June 2013, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB1,667,000 (31 December 2012: RMB1,923,000) and the balance of deposits received by ZTE Group Finance from related parties amounting RMB22,409,000 (31 December 2012: RMB15,050,000). Please refer to Note VI "The relationships and transactions with related parties".

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Outstanding litigation	44,765	34,935	(1,233)	78,467
Provision for returned handsets	51,257	—	(15,952)	35,305
Provision for warranties	195,435	193,321	(218,509)	170,247
	291,457	228,256	(235,694)	284,019

30. Long-term non-current liabilities due within one year

	30 June 2013	31 December 2012
Long-term loans due within one year	6,179	506,286
Bonds cum warrants due within one year	—	4,018,134
	6,179	4,524,420

Long-term loans due within one year are analysed as follows:

		30 June 2013		31 December 2012	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	—	—	500,000	500,000
Guaranteed loans	USD	1,000	6,179	1,000	6,286
			6,179		506,286

As at 30 June 2013, long-term non-current loans due within one year were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate	Balance as at 30 June 2013		31 December 2012	
				(%)	Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
Shanghai Pudong Development Bank	2011.8.11	2013.8.11	USD	Approx. 3%	1,000	6,179	1,000	6,286

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Long-term loans

		30 June 2013		31 December 2012		
		Foreign currency	**RMB equivalent**	Foreign currency	RMB equivalent	
Credit loans	RMB	**1,802,000**	**1,802,000**	2,000	2,000	
	USD	**23,184**	**143,247**	—	—	
Guaranteed loans	USD	**896,032**	**5,536,314**	—	—	Note 1
Secured loans	RMB	**277,678**	**277,678**	281,215	281,215	Note 2
	USD	**—**	**—**	28,704	180,419	
Pledged loans	RMB	**507,322**	**507,322**	513,785	513,785	Note 3
	USD	**2,000**	**12,357**	2,000	12,571	
			8,278,918		989,990	

Note 1: The guaranteed loan represented a USD900 million facility borrowed by ZTE HK, a wholly-owned subsidiary of the Company, from 10 international banks including Bank of China (Hong Kong) Limited (the "Syndicate") on 8 July 2011. As at March 2013, ZTE HK had obtained waiver approvals from all lending banks and had received a notice of exemption from early loan repayment issued by Bank of China (Hong Kong) Limited. Therefore the facility was reclassified under long-term loans in the financial statements for the period under review.

Note 2: RMB277,678,000 of the loan was secured by land use rights of Xi'an Zhongxing New Software Company Limited with book value of RMB23,910,000 and its plants with a book value of RMB683,394,000.

Note 3: RMB507,322,000 of the pledged loans was secured by trade receivables of Xi'an Zhongxing New Software Company Limited with book value of RMB750,000,000; RMB12,357,000 was pledged by time deposit notes amounting RMB15,000,000 by Netex Cayman Holdings Co.Ltd.

As at 30 June 2013, the top five long-term loans were as follows:

	Loan drawdown date	**Loan Due date**	**Currency**	**Interest rate**	**30 June 2013**		31 December 2012	
				(%)	**Foreign currency**	**RMB equivalent**	Foreign currency	RMB equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approx. 3%	**446,585**	**2,759,319**	–	–
Bank of China	2011.7.20	2014.7.20	USD	Approx. 2%	**349,594**	**2,160,039**	–	–
China Merchants Bank	2013.5.31	2016.5.30	RMB	6.15%	**1,000,000**	**1,000,000**	–	–
Bank of China	2011.8.15	2014.8.15	USD	Approx.2%	**99,852**	**616,956**	–	–
Bank of China	2012.4.25	2015.4.25	RMB	7%	**507,322**	**507,322**	513,785	513,785

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32. Bonds payable

30 June 2013

	Opening balance	Increase during the period	Decrease during the period	Closing balance	
Bonds payable	**6,107,993**	**131,799**	**(252,000)**	**5,987,792**	**Note 1**

31 December 2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance	
Bonds cum Warrants	3,884,198	165,936	(4,050,134)	—	Note 2
Bonds payable	—	6,107,993	—	6,107,993	
	3,884,198	6,273,929	(4,050,134)	6,107,993	

Note 1 On 13 June 2012, the Company issued 3-year unsecured corporate bonds for a total amount of RMB6 billion. The corporate bonds carry a coupon interest rate of 4.2% with bond interest payable annually on 13 June. As at the issue date, liability costs arising from the deduction of issue expenses amounted to RMB5,965,212,000.

Note 2 The Company issued 40 million Bonds cum Warrants each with a face value of RMB100 for a total amount of RMB4 billion on 30 January 2008 for full repayment within 5 years from the date of issue. Repayment for the bonds was completed during the period.

33. Other non-current assets/liabilities

Other non-current assets

	30 June 2013	31 December 2012
Prepayments for project work, equipment and land	**207,852**	217,482
Risk compensation	**2,858,453**	3,157,077
Others	**207,402**	229,744
	3,273,707	3,604,303

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Other non-current assets/liabilities (continued)

Other non-current liabilities

	30 June 2013	31 December 2012
Long-term financial guarantee contract	3,689	3,689
Provision for retirement benefits	53,440	54,041
Factored interests payable	308,956	341,719
Non-current portion of hedging instruments	3,427	10,747
Deferred income relating to staff housing	999,211	182,086
	1,368,723	592,282

34. Share capital

	Opening Balance	Change during the period	Closing balance
Restricted shares			
Domestic natural person shares	2,537	—	2,537
Senior management shares	8,724	250	8,974
Total number of restricted shares	11,261	250	11,511
Unrestricted shares			
RMB Ordinary Shares	2,799,232	(250)	2,798,982
Overseas listed foreign shares	629,585	—	629,585
Total number of unrestricted shares	3,428,817	(250)	3,428,567
Total number of shares	3,440,078	—	3,440,078

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35. Capital reserves

	Opening Balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,442,845	—	—	8,442,845
Changes in shareholders' equity of investee other than net of gains/ losses under equity method and other capital reserves	41,260	—	—	41,260
Changes in the fair value of available-for-sale financial assets	12,625	61,856	—	74,481
Appreciation of fixed assets, construction in progress and land use rights upon valuation	792,769	—	—	792,769
Changes in the fair value of hedging Instruments	(16,856)	7,513	—	(9,343)
Capital injection from government	80,000	—	—	80,000
	9,352,643	69,369	—	9,422,012

36. Surplus reserves

	Opening Balance	Increase during the period	Decrease during the period	Closing Balance
Statutory surplus reserves	1,587,430	—	—	1,587,430

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the company's share capital.

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37. Retained profits

	30 June 2013
Retained profits at the beginning of the period	7,705,022
Net profit	310,012
Less: Statutory surplus reserves	—
Proposed final dividend	—
Retained profits at the end of the period	8,015,034

In accordance with the Articles of Association of the Company, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs.

38. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Revenue	37,348,929	42,538,106
Other income	227,283	103,792
	37,576,212	42,641,898

Operating cost is analysed as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Costs of sales	27,163,431	31,203,030
Other operating expenses	70,743	74,960
	27,234,174	31,277,990

Principal operations by product:

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Revenue	Cost	Revenue	Cost
Networks	19,050,466	12,419,933	21,279,581	14,421,544
Terminals	12,460,868	10,538,437	14,248,064	11,882,809
Telecommunications software system, services and other products	5,837,595	4,205,061	7,010,461	4,898,677
	37,348,929	27,163,431	42,538,106	31,203,030

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Operating revenue and costs (continued)

Principal operations by geography:

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Revenue	**Cost**	Revenue	Cost
The PRC	**18,604,092**	**13,216,788**	20,799,640	14,783,179
Asia (excluding the PRC)	**6,317,232**	**4,914,259**	7,991,518	6,109,326
Africa	**3,034,884**	**2,191,356**	3,923,335	2,400,468
Europe, Americas and Oceania	**9,392,721**	**6,841,028**	9,823,613	7,910,057
	37,348,929	**27,163,431**	42,538,106	31,203,030

For the six months ended 30 June 2013, operating revenue from the top five customers was as follows:

	Six months ended 30 June 2013	
Names of customer	**Amount**	**As a percentage of operating revenue %**
Customer 1	**5,296,193**	**14.09%**
Customer 2	**4,259,460**	**11.34%**
Customer 3	**2,876,356**	**7.65%**
Customer 4	**897,089**	**2.39%**
Customer 5	**675,844**	**1.80%**
	14,004,942	**37.27%**

Sales to the top five customers of the Group generated revenue of RMB14,004,942,000 for six months ended 30 June 2013 (six months ended 30 June 2012: RMB15,675,306,000), accounting for 37.27% (six months ended 30 June 2012: 36.76%) of the operating revenue of the Group respectively.

39. Construction contracts

Construction contract works are stated as the sum of accumulated costs and accumulated gross profit (loss) recognized less settled contract amounts and expected losses on contracts. See Note V.8. For the period under review, there was no single contract whose recognized income accounted for more than 10% of the operating revenue.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Taxes and surcharges

	Six months ended 30 June 2013	Six months ended 30 June 2012
Business tax	**135,188**	374,421
City maintenance and construction tax	**115,886**	122,661
Education surcharge	**93,252**	93,789
Others	**18,310**	17,248
	362,636	608,119

For tax standards, please refer to Note III, "Taxation".

41. Gains/losses from changes in fair values

	Six months ended 30 June 2013	Six months ended 30 June 2012
Derivative financial instruments	**117,697**	(7,745)
Financial assets at fair value through profit or loss	**(8,553)**	(23,694)
Investment properties at fair value	**53,744**	—
	162,888	(31,439)

42. Investment income

	Six months ended 30 June 2013	Six months ended 30 June 2012
Long-term equity investment income/(losses) under equity method	**(29,644)**	(7,922)
Long-term equity investment income under cost method	**7,501**	2,107
Investment income/(loss) arising from the disposal of derivative financial instruments	**(21,293)**	32,240
Investment income from the disposal of equity interests	**852,567**	64,453
	809,131	90,878

As at 30 June 2013, the Group was not subject to significant restrictions in remitting its investment income.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Finance expenses

	Six months ended 30 June 2013	Six months ended 30 June 2012
Interest expenses	**766,104**	561,520
Less: Interest income	**88,086**	67,994
Loss on foreign currency exchange	**638,028**	141,321
Cash discounts and interest subsidy	**28,833**	2,204
Bank charges	**96,675**	194,012
	1,441,554	831,063

44. Impairment losses

	Six months ended 30 June 2013	Six months ended 30 June 2012
Bad debt provisions	**627,247**	208,147
Inventories provisions	**299,441**	252,343
	926,688	460,490

45. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2013	Six months ended 30 June 2012	The amount in the non-recurring profit/ loss of the period
Refund of VAT on software products (Note 1)	**1,117,154**	1,152,837	—
Others (Note 2)	**439,498**	393,881	297,899
	1,556,652	1,546,718	297,899

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled product sales by some subsidiaries of the Company, pursue Software Enterprise and the IC Industry' and the approval reply of the state taxation authorities.

Note 2: Others represent gains from government grants, contract penalties and other gains.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Non-operating income/Non-operating expenses (continued)

Non-operating expenses

	Six months ended 30 June 2013	Six months ended 30 June 2012	The amount in the non-recurring profit/loss of the period
Compensation	**253**	69	253
Loss on disposal of non-current assets	**7,171**	12,068	7,171
Others	**34,774**	15,602	34,774
	42,198	27,739	42,198

46. Income tax

	Six months ended 30 June 2013	Six months ended 30 June 2012
Current income tax	**387,474**	301,493
Deferred income tax	**25,063**	(37,869)
	412,537	263,624

Income tax and total profit reconciled as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Total profit	**741,781**	655,632
Tax at statutory tax rate (Note 1)	**185,446**	163,908
Effect of different tax rates applicable to certain subsidiaries	**(154,549)**	(162,000)
Adjustment to current tax in previous periods	**20,237**	(10,883)
Profits and losses attributable to jointly-controlled entities and associates	**6,989**	1,981
Income not subject to tax	**(163,573)**	(166,052)
Expenses not deductible for tax	**238,609**	184,294
Utilisation of deductible tax losses from previous years	**(23,040)**	(70,467)
Unrecognised tax losses	**302,418**	322,843
Tax amounts at the Group's effective tax rates	**412,537**	263,624

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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47. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Earnings		
Net profit/(loss) attributable to ordinary shareholders of the Company for the period	**310,012**	244,875
Shares		
Weighted average number of ordinary shares of the Company	**3,437,541**	3,430,952
Diluting effect — weighted average number of ordinary shares		
Restricted Shares under the Phase I Share Incentive Scheme	**—**	6,874
Adjusted weighted average number of ordinary shares of the Company	**3,437,541**	3,437,826

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Other comprehensive income

	Six months ended 30 June 2013	Six months ended 30 June 2012
Fair-value changes in hedging instruments	**7,513**	(9,344)
Fair-value changes in available-for-sale financial assets	**60,487**	19,374
Appreciation of owned properties reclassified to investment properties upon valuation on the date of reclassification	**–**	932,670
Differences arising from foreign currency translation	**(167,838)**	(218,101)
	(99,838)	724,599

49. Notes to cash flow statement

	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash received in connection with other operating activities:		
Interest income	**88,086**	67,994
Cash paid in connection with other operating activities:		
Selling and distribution costs	**2,681,274**	2,999,196
Administrative expenses and research and development costs	**692,729**	1,144,348

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit/(loss) to cash flows from operating activities:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Net profit/(loss)	**329,244**	392,008
Add: Provision for impairment of assets	**926,688**	460,490
Depreciation of fixed assets	**472,644**	499,438
Amortisation of intangible assets and deferred development costs	**312,765**	222,137
Amortisation of long-term deferred assets	**8,502**	5,117
Loss on disposal of fixed assets, intangible assets and other long-term assets	**7,171**	12,068
Loss (gains) from changes in fair value	**(162,888)**	31,439
Finance expenses	**493,026**	561,629
Investment income	**(809,131)**	(90,878)
Increase/(decrease) in deferred tax assets	**(25,063)**	(59,909)
Increase/(decrease) in deferred tax liabilities	**—**	22,040
(Increase)/decrease in inventories	**(434,163)**	1,680,576
Increase/(decrease) in operating receivables	**2,946,770**	(2,010,771)
Increase/(decrease) in operating payables	**(8,765,742)**	(5,039,483)
Share incentive scheme costs	**—**	3,666
(Increase)/decrease in cash not immediately available for payments	**359,093**	(329,239)
Net cash flows from operating activities	**(4,341,084)**	(3,639,672)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. Supplemental information on cash flow statement (continued)

(2) Information on disposal of subsidiaries

	Six months ended 30 June 2013 ZNV
Consideration for the disposal of subsidiaries	1,292,374
Disposal of cash and cash equivalents received by subsidiaries	1,292,374
Less: Disposal of cash and cash equivalents held by subsidiaries	286,007
Disposal of net cash received by subsidiaries	1,006,367
Disposal of net assets of subsidiaries	632,212
Current assets	1,097,744
Non-current assets	117,893
Current liabilities	(583,425)
Non-current liabilities	—

(3) Change in cash and cash equivalents:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash		
Including: Cash on hand	3,175	10,349
Bank deposit readily available	15,912,516	20,533,111
Cash and cash equivalents at the end of the period	15,915,691	20,543,460

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Type of enterprise	Place of registration	Legal Representative	Nature of business	Registered capital	Percentage of shareholding	Percentage of voting rights	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Wei Liang	Manufacturing	RMB100 million	30.76%	30.76%	19222451-8

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhonxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note IV. Scope of Consolidation of the Consolidated Financial Statements.

3. Jointly-controlled entities and associates

Details of the jointly-controlled entity and associates are set out in Note V. 12.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties

	Relationship	Organisation number
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder as the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same controlling shareholder as the Company	78390928-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Under the same controlling shareholder as the Company	75252829-7
南京中興群力信息科技有限公司	Subsidiary of an associate of the Company	69837419-3
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company	56420239-6
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company	69741992-7
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company	56720442-6
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company	57076139-7
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company	59224568-4
中興能源(天津)節能服務有限公司	Indirect subsidiary of an associate of the Company	55948745-4
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder	27941498-X
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder	H0420141-X
深圳市中興昆騰有限公司	Subsidiary of the Company's controlling shareholder	58273445-X
中興儀器(深圳)有限公司	Subsidiary of the Company's controlling shareholder	58919362-5
深圳市中興環境儀器有限公司	Subsidiary of the Company's controlling shareholder	76195848-3
Shenzhen Zhongxing Information Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	71523345-7
Shenzhen Gaodonghua Communication Technology Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	74323392-1
Shenzhen Shenglongfeng Industrial Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	72619249-4
北京協力超越科技有限公司	Subsidiary of a shareholder of the Company's controlling shareholder	76678817-X
西安亮麗儀器儀錶有限責任公司	Company with equity investment by a shareholder of a Shareholder of the controlling shareholder of the Company	62805351-1
Mobi Antenna Technologies (Shenzhen) Company Limited	Company for which a supervisor of the Company's controlling shareholder acted as director	71522427-8
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	76591251-1

Notes to Financial Statements

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship	Organisation number
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	79590131-1
Huatong Technology Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	66527177-X
中興軟件技術(瀋陽)有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	55077950-6
三河中興發展有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	78409578-0
三河中興物業服務有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	67854891-8
中興綠色農業有限公司	Indirect subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	59450807-0
Zhongxing Development Company Limited	Company for which the Chairman of the Company concurrently acted as chairman	75048467-3
Metarnet Technologies Co., Ltd.	Company for which the Independent Director of the Company acted as independent director during the past 12 months	70003931-X
Shenzhen Hekang Investment Management Company Limited	Company for which a Director of the Company acted as executive director	56278177-7
Shenzhen Aerospace Guangyu Industrial Company Limited	Company for which a Director of the Company acted as director	19217503-1
Shenzhen Zhongxing Keyang Energy & Environmental Protection Co., Ltd.	Company in which a related natural person of the Company acted as director	66419173-5
南京創碼科技有限責任公司	Company with equity investment by a subsidiary of the Company	75410660-2
SERVICESVIAZCOMPLECT	Company with equity investment by a subsidiary of the company	Nil

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) *The transaction of goods with related parties:*

Sales of goods to related parties:

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Zhongxing Information Company Limited	**900**	**—**	4,309	0.01
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**952**	**—**	943	—
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**1,466**	**0.01**	338	—
Zhongxing Intelligent Transport System (Wuxi) Company Limited*	**—**	**—**	18,162	0.04
Mobi Antenna Technologies (Shenzhen) Company Limited	**3**	**—**	152	—
上海與德通訊技術有限公司**	**—**	**—**	167	—
Zhongxing Development Company Limited	**—**	**—**	2	—
Shenzhen Weigao Semiconductor Company Limited**	**—**	**—**	2,553	0.01
南京中興群力信息科技有限公司	**714**	**—**	1,438	—
普興移動通訊設備有限公司	**27,959**	**0.07**	43,894	0.11
Shenzhen Decang Technology Company Limited**	**—**	**—**	133	—
Shenzhen Zhongxing Xinyu FPC Company Limited	**64**	**—**	20	—
Wuxi Kaier Technology Company Limited	**31**	**—**	3,189	0.01
Shenzhen Yuanxing Technology Co., Ltd.	**—**	**—**	5	—
Shenzhen Shenglongfeng Industrial Company Limited	**3**	**—**	42	—
北京協力超越科技有限公司	**112**	**—**	2	—

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties: (continued)

Sales of goods to related parties: (continued)

	Six months ended 30 June 2013 Amount	Six months ended 30 June 2013 Percentage (%)	Six months ended 30 June 2012 Amount	Six months ended 30 June 2012 Percentage (%)
Shenzhen Fudekang Electronics Company Limited**	**–**	**–**	89	–
ZTE Software Technology (Nanchang) Company Limited	**137**	**–**	–	–
深圳市中興昆騰有限公司	**144**	**–**	–	–
中興軟件技術(瀋陽)有限公司	**1**	**–**	–	–
北京億科三友科技發展有限公司	**3**	**–**	–	–
上海歡流傳媒有限公司	**206**	**–**	–	–
Huatong Technology Company Limited	**3**	**–**	–	–
Zhongxing Energy Company Limited	**1,651**	**0.01**	–	–
	34,349	**0.09**	75,438	0.18

For the six months ended 30 June 2013, sales to related parties accounted for 0.09% of the Group's total sales. (Six months ended 2012: 0.18%).

* Senior management members of the Company resigned as senior management of Zhongxing Intelligent Transport System (Wuxi) Company Limited on 27 December 2011. Hence, Zhongxing Intelligent Transport System (Wuxi) Company Limited ceased to be a related party of the Company as from 27 December 2012.

** Changfei was deconsolidated as from December 2012. Hence, Shenzhen Weigao Semiconductor Company Limited, 上海與德通訊技術有限公司, Shenzhen Decang Technology Company Limited, Shenzhen Jufei Optoelectronics Co., Ltd. and Shenzhen Fudekang Electronics Company Limited, being associates of Changfei, ceased to be related parties of the Group.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties: (continued)

Purchase of goods from related parties:

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**92,496**	**0.44**	100,634	0.44
Shenzhen Fudekang Electronics Company Limited **	**—**	**—**	11,624	0.05
Wuxi Kaier Technology Company Limited	**23,831**	**0.11**	74,447	0.33
Shenzhen Weigao Semiconductor Company Limited**	**—**	**—**	15,938	0.07
Shenzhen Decang Technology Company Limited**	**—**	**—**	6,585	0.03
Shenzhen Jufei Optoelectronics Co., Ltd.**	**—**	**—**	4,637	0.02
Shenzhen Zhongxing Xinyu FPC Company Limited	**35,619**	**0.17**	77,997	0.34
Mobi Antenna Technologies (Shenzhen) Company Limited	**148,247**	**0.71**	109,280	0.48
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**101,732**	**0.49**	66,096	0.29
Shenzhen Shenglongfeng Industrial Company Limited	**11,625**	**0.06**	15,288	0.07
ZTE Software Technology (Nanchang) Company Limited	**2,369**	**0.01**	9,188	0.04
Huatong Technology Company Limited	**8,176**	**0.04**	4,320	0.02
Zhongxing Energy (Tianjin) Company Limited	**464**	**—**	480	—

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties: (continued)

Purchase of goods from related parties: (continued)

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Zhongxing Energy (Shenzhen) Company Limited	**838**	**—**	—	—
上海歡流傳媒有限公司	**296**	**—**	—	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	**11,041**	**0.05**	—	—
南京中興和泰酒店管理有限公司	**648**	**—**	—	—
上海市和而泰酒店投資管理有限公司	**1,804**	**0.01**	—	—
西安中興和泰酒店管理有限公司	**792**	**—**	—	—
北京億科三友科技發展有限公司	**1,114**	**0.01**	—	—
中興能源(天津)節能服務有限公司	**5,858**	**0.03**	—	—
Shenzhen Aerospace Guangyu Industrial Company Limited	**16,368**	**0.08**	—	—
	463,318	**2.21**	496,514	2.18

For the six months ended 30 June 2013, purchases from related parties accounted for 2.21% of the Group's total purchases (Six months ended 30 June 2012: 2.18%).

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties: (continued)

Lease of properties to related parties:

Six months ended 30 June 2013

	Property leased	Starting date	Ending date	Lease gain recognized for the period
Zhongxing Development Company Limited	Office	1/1/2013	12/31/2014	1,073
北京協力超越科技有限公司	Office	1/1/2013	3/31/2013	11
Shenzhen Zhongxing Keyang Energy & Environmental Protection Co., Ltd.	Office	1/1/2013	12/31/2014	70
	Office	1/1/2013	6/30/2014	86
中興綠色農業有限公司***	Office	1/1/2013	6/30/2014	106
普興移動通訊設備有限公司	Office	1/1/2013	8/31/2015	39
中興儀器(深圳)有限公司****	Office	1/1/2013	12/31/2014	146
深圳市中興昆騰有限公司	Office	1/1/2013	4/30/2013	403
南京中興群力信息科技有限公司	Office	4/1/2013	3/31/2014	52
上海歡流傳媒有限公司	Office	1/1/2013	6/30/2013	156
無錫鴻圖微電子技術有限公司	Office	1/1/2013	9/30/2013	180
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	7/1/2012	6/30/2013	4,040
南京中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	2,138
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	7,348
西安中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	5,896

*** 武漢中興軟件有限責任公司, Zhongxing Energy (Hubei) Company Limited and 中興綠色農業有限公司 entered into an agreement on 1 January 2013 to change the lessee of a lease contract, whereby the former lessee Zhongxing Energy (Hubei) Company Limited was changed to 中興綠色農業有限公司 effective upon execution of the agreement.

**** Xi'an Zhongxing New Software Company Limited , Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and 中興儀器(深圳)有限公司 entered into an agreement on 1 January 2013 to change the lessee of a lease contract, whereby the former lessee Shenzhen Zhongxingxin Telecommunications Equipment Company Limited was changed to 中興儀器(深圳)有限公司 effective upon execution of the agreement.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties: (continued)

Lease of properties to related parties: (continued)

Six months ended 30 June 2012

	Property leased	Starting date	Ending date	Lease gain recognized for the period
Zhongxing Development Company Limited	Office	1/1/2012	6/30/2012	848
北京協力超越科技有限公司	Office	1/1/2012	6/30/2012	19
Shenzhen Zhongxing WXT Equipment Company Limited	Office	1/1/2012	3/30/2012	17
Zhongxing Energy (Shenzhen) Company Limited	Office	1/1/2012	3/30/2012	150
Zhongxing Energy (Hubei) Company Limited	Office	1/1/2012	6/30/2012	106

Lease of properties from related parties:

Six months ended 30 June 2013

	Property leased	**Starting date**	**Ending date**	**Lease cost recognized for the period**
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**Office**	**4/18/2010**	**4/17/2013**	**2,624**
	Office	**4/18/2013**	**4/17/2015**	**1,790**
Zhongxing Development Company Limited	**Office**	**4/18/2010**	**4/17/2013**	**12,081**
	Office	**4/18/2013**	**4/17/2015**	**9,274**
Chongqing Zhongxing Development Company Limited	**Office**	**1/1/2012**	**12/31/2014**	**4,390**
三河中興發展有限公司	**Office**	**8/1/2011**	**3/17/2013**	**173**
	Office	**12/18/2012**	**12/17/2015**	**303**
三河中興物業服務有限公司	**Office**	**12/18/2012**	**12/17/2015**	**74**

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties: (continued)

Lease of properties from related parties: (continued)

Six months ended 30 June 2012

	Property leased	Starting date	Ending date	Lease cost recognized for the period
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	4,414
Zhongxing Development Company Limited	Office	4/18/2007	4/17/2013	20,323
Chongqing Zhongxing Development Company Limited	Office	1/1/2012	10/22/2014	4,465
三河中興發展有限公司	Office	3/18/2011	3/17/2013	690
三河中興物業服務有限公司	Office	3/18/2011	3/17/2013	177

(3) Transfer of equity interests to related parties

	Six months ended 30 June 2013	Six months ended 30 June 2012
Zhongxing Development Company Limited	–	25,174
	–	25,174

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(4) Other major related transactions

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Remuneration of key management personnel	**9,735**	**0.15%**	5,556	0.08%

Note:

(i) Commercial transactions with related parties: During the six months ended 30 June 2013, commercial transactions with related parties were conducted by the Group at market price during the period.

(ii) Leasing property from related parties: During the six months ended 30 June 2013, office space, properties and equipment was leased to the aforesaid related parties by the Group during the period and lease income of RMB21,744,000 (Six months ended 30 June 2012: RMB1,140,000) was recognized in accordance with relevant lease contracts.

During the six months ended 30 June 2013, office space was leased from the aforesaid related parties by the Group during the period and lease income of RMB30,709,000 (Six months ended 30 June 2012: RMB30,069,000) was recognized in accordance with relevant lease contracts.

6. Balances of amounts due from/to related parties

Item	**Name of related parties**	**30 June 2013**	31 December 2012
Bills receivable	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**252**	—
	西安亮麗儀器儀錶有限責任公司	**32,400**	—
		32,652	—

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2013	31 December 2012
Trade receivables	Shenzhen Zhongxing Information Company Limited	628	598
	普興移動通訊設備有限公司	42,531	100,819
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	626	346
	Shenzhen Zhongxing Xinyu FPC Company Limited	85	85
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	1,440	680
	北京協力超越科技有限公司	74	8
	Xi'an Microelectronics Technology Research Institute	9	9
	Mobi Antenna Technologies (Shenzhen) Company Limited	58	58
	深圳市中興昆騰有限公司	—	577
	Metarnet Technologies Co.,Ltd.	160	—
	南京中興群力信息科技有限公司	—	648
		45,611	103,828
Prepayments	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	484	484
	Shenzhen Zhongxing Information Company Limited	945	357
	Wuxi Kaier Technology Company Limited	147,840	147,840
	南京中興群力信息科技有限公司	367	—
	Metarnet Technologies Co.,Ltd.	165	—
		149,801	148,681
Dividends receivable	Shenzhen Yuanxing Technology Co., Ltd.	400	400
		400	400
Other receivables	西安中興和泰酒店管理有限公司	5,896	—
	無錫鴻圖微電子技術有限公司	4,961	4,924
		10,857	4,924
Bills payable	Wuxi Kaier Technology Company Limited	13	1,048
	Shenzhen Zhongxing Xinyu FPC Company Limited	569	1,526
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	270
	Shenzhen Shenglongfeng Industrial Company Limited	1,255	—
	南京中興群力信息科技有限公司	430	—
		2,267	2,844

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2013	31 December 2012
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**35,762**	65,376
	Wuxi Kaier Technology Company Limited	**4,444**	17,138
	Shenzhen Zhongxing Xinyu FPC Company Limited	**5,126**	556
	Mobi Antenna Technologies (Shenzhen) Company Limited	**60,312**	79,773
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**720**	31,508
	Zhongxing Xinzhou Complete Equipment Company Limited	**183**	592
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	328
	Shenzhen Zhongxing Information Company Limited	**5,088**	5,212
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	Shenzhen Shenglongfeng Industrial Company Limited	**3,992**	9,075
	Shenzhen Aerospace Guangyu Industrial Company Limited	**2,000**	—
	中興能源(天津)節能服務有限公司	**5,456**	—
	深圳市中興昆騰有限公司	**247**	—
	Shenzhen Yuanxing Technology Co., Ltd.	**—**	7,610
	ZTE Software Technology (Nanchang) Company Limited	**—**	338
	中興儀器(深圳)有限公司	**—**	3,191
		123,833	220,873

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(Prepared under PRC ASBEs)
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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2013	31 December 2012
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,327
	普興移動通訊設備有限公司	**3**	777
	Xi'an Microelectronics Technology Research Institute	**2**	2
	北京協力超越科技有限公司	**155**	98
	南京中興群力信息科技有限公司	**56**	302
	西安亮麗儀器儀錶有限責任公司	**32,400**	—
	中興軟件技術(瀋陽)有限公司	**3**	—
	SERVICESVIAZCOMPLECT	**36**	—
	南京創碼科技有限責任公司	**2,076**	—
	深圳市中興環境儀器有限公司	**—**	112
		40,058	6,618
Other payables	Shenzhen Zhongxing Xinyu FPC Company Limited	**31**	31
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Zhongxing Energy (Hubei) Company Limited	**53**	53
	Zhongxing Development Company Limited	**215**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**1,308**	1,363
	深圳市中興昆騰有限公司	**—**	201
		1,667	1,923
Dividend payable	Shenzhen Hekang Investment Management Company Limited	**—**	6,750
		—	6,750

Amount due from/to related parties were interest-free, unsecured and had no fixed term of repayment.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7 Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) *Customer deposits*

	30 June 2013	31 December 2012
Wuxi Kaier Technology Company Limited	3,040	324
南京中興和泰酒店管理有限公司	2,524	2,269
上海市和而泰酒店投資管理有限公司	12,474	10,608
西安中興和泰酒店管理有限公司	32	1,849
北京億科三友科技發展有限公司	4,339	—
	22,409	15,050

(2) *Interest expenses*

	Six months ended 30 June 2013	Six months ended 30 June 2012
Wuxi Kaier Technology Company Limited	9	—
Shenzhen Decang Technology Company Limited**	—	5
上海市和而泰酒店投資管理有限公司	58	40
南京中興和泰酒店管理有限公司	11	4
西安中興和泰酒店管理有限公司	2	—
北京億科三友科技發展有限公司	20	—
	100	49

(3) *Release of loans and advances — release of loans*

	30 June 2013	31 December 2012
Wuxi Kaier Technology Company Limited	50,000	48,900
北京億科三友科技發展有限公司	8,156	—
	58,156	48,900

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7 Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(4) Release of loans and advances — discounted bills

	30 June 2013	31 December 2012
Wuxi Kaier Technology Company Limited	**25,439**	75,928
Shenzhen Shenglongfeng Industrial Company Limited	**6,266**	3,789
Shenzhen Weigao Semiconductor Company Limited**	**—**	996
北京億科三友科技發展有限公司	**1,296**	—
	33,001	80,713

Out of the aforesaid discounted bills, bills with a balance of approximately RMB6,828,000 were issued by companies outside the Group. Such balance was set out under Other Receivables (31 December 2012: RMB47,872,000). Bills with a balance of approximately RMB26,173,000 were issued by companies within the Group, and the relevant assets and liabilities were set-off on consolidation (31 December 2012: RMB31,845,000).

(5) Interest income derived from loans and discounted bills

	Six months ended 30 June 2013	Six months ended 30 June 2012
Wuxi Kaier Technology Company Limited	**2,261**	3,190
Shenzhen Weigao Semiconductor Company Limited**	**—**	4
Shenzhen Decang Technology Company Limited**	**—**	134
Shenzhen Shenglongfeng Industrial Company Limited	**192**	42
北京億科三友科技發展有限公司	**199**	—
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**—**	210
	2,652	3,580

(6) Interest receivable

	30 June 2013	31 December 2012
Wuxi Kaier Technology Company Limited	**—**	96

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7 Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(7) Interest payable

	30 June 2013	31 December 2012
南京中興和泰酒店管理有限公司	–	1
上海市和而泰酒店投資管理有限公司	–	4
	–	5

VII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB48,014,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB20,643,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the litigation is likely to continue for a considerable amount of time. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgment. Based on the legal opinion furnished by lawyers engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan District People's Court handed the first trial judgment in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed to the Nanshan District People's court against the said judgment. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgment of the case of China Construction Fifth Division at the Intermediate Court.

   In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. As of now the two trials have suspended.

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VII. CONTINGENT EVENTS (CONTINUED)

2. (continued)

   In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The Shenzhen Intermediate People's Court issued its first-trial judgment in November 2012 which ruled contract amounts of approximately 14,497,000 together with interests accrued thereon and losses incurred as a result of work suspension amounting to approximately RMB953,000 to be paid by the Company to China Construction Fifth; while RMB20,150,000 withheld by China Construction Fifth together with interests accrued thereon shall be refunded by China Construction Fifth to the Company. Other claims of China Construction Fifth were rejected. China Construction Fifth has filed an appeal with the Guangdong Provincial People's High Court in respect of the said judgment.

   Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

3. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZT (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

   On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto. Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgments and current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

4. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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VII. CONTINGENT EVENTS (CONTINUED)

5. On 9 December 2011, the Company and ZTE USA, its wholly-owned subsidiary, received a petition for arbitration filed by four USA companies and ERIC STEINMANN, a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court. As the arbitration procedures of the United States do not impose any limit to the claim amount that an applicant may demand, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

   On 12 October 2012, the Company and ZTE USA defended themselves and made counter-claims at the ICDR, alleging default, fraud, abuse of litigation rights and grave infringement on the Company's interests on the part of CLEARTALK. On 14 June 2013, ICDR stated its support for the motion submitted by the Company and ZTE USA requesting rejection of ERIC STEINMANN's application for arbitration.

   Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgments and current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions of the Group for the current period.

6. On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL 74.70 million (approximately RMB221 million). On 20 January 2012, ZTE Brazil submitted an administrative defense to the primary administrative court of the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the primary administrative court of the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. On 29 November 2012, the tax bureau of Sao Paulo State issued a notice which stated that it was of the view that ZTE Brazil had paid or satisfied in remedy the payment of the ICMS tax and therefore recommended the suspension of the administrative penalty notice. The case is pending judgment of the secondary administrative court of the tax bureau of Sao Paulo State.

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VII. CONTINGENT EVENTS (CONTINUED)

6. (continued)

   On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB285 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements. On the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State. ZTE Brazil also pointed out that the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules.

   Based on the legal opinion furnished by lawyers engaged by the Company and the existing judgments and current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions of the Group for the current period.

7. In November 2012, ZTE Brazil filed an application with the civil court of Brasilia to freeze the assets of a Brazilian company who failed to repay a loan of approximately BRL31,353,700 (approximately RMB92,744,200). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

   On 30 November 2012, ZTE Brazil received a notice from the 15th Civil Court of Sao Paulo, Brazil that the said Brazilian Company had filed a lawsuit with the said court, alleging fraud and negligence on the part of ZTE Brazil during the course of cooperation and demanding compensation with a total amount of approximately BRL82,974,500 (approximately RMB245 million). The Company has appointed a legal counsel to conduct active defense in respect of the aforesaid case.

   Based on the current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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VII. CONTINGENT EVENTS (CONTINUED)

8. On 29 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States).

   On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.), filed a claim with the International Trade Commission ("ITC") and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its 3G patent rights. Defendants in this case included other companies in the industry. In the ITC case, the said four companies demanded the issue of a permanent exclusion and injunction order that would prevent certain of our terminal products from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

9. In May 2012, a U.S. company filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

   Based on the legal opinion furnished by legal counsels engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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VII. CONTINGENT EVENTS (CONTINUED)

10. In July 2012, a U.S. company filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

    Based on the legal opinion furnished by legal counsels engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

11. As at 30 June 2013, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,521,978,000.

12. As at 30 June 2013, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB64,847,000 (31 December 2012: RMB65,179,000). The aforesaid guarantee will expire in December 2013 and September 2018.

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VIII. COMMITMENTS

	30 June 2013	31 December 2012
Capital commitments		
Contracted but not provided for	**281,114**	484,417
Authorised by the Board but not yet contracted	**21,514,703**	21,600,404
	21,795,817	22,084,821
Investment commitment		
Contracted but performance not completed	**60,785**	41,712

IX. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013	31 December 2012
Within one year (including first year)	**278,218**	432,442
In the first to second years (including second year)	**139,506**	332,859
In the second to third years (including third year)	**91,661**	300,111
After the third year	**231,126**	358,590
	740,511	1,424,002

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting

Operating segments

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

(1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications;

(2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products;

(3) 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 before tax except that finance expenses, research and development costs, impairment losses, gains from changes in fair values of financial instruments, Investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payable, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
Six months ended 30 June 2013				
Segment revenue				
Revenue of Telecommunications systems contracts	19,050,466	—	6,029,380	25,079,846
Sales of goods and services	—	12,460,868	35,498	12,496,366
Sub-total	19,050,466	12,460,868	6,064,878	37,576,212
Segment results	4,080,340	254,355	977,198	5,311,893
Unallocated revenue				1,556,652
Unallocated expenses				(4,818,454)
Finance costs				(1,441,554)
Gains from fair-value changes				162,888
Gains from investment in associates and jointly-controlled entities				(29,644)
Total profit				741,781
Income tax				(412,537)
Net profit				329,244
30 June 2013				
Total assets				
Segment assets	37,346,779	13,073,161	11,889,669	62,309,609
Unallocated assets				40,269,193
Sub-total				102,578,802
Total liabilities				
Segment liabilities	10,594,317	1,110,229	3,372,792	15,077,338
Unallocated liabilities				64,725,939
Sub-total				79,803,277
Supplemental information				
Six months ended 30 June 2013				
Depreciation and amortisation	402,499	263,273	128,139	793,911
Capital expenditure	579,451	379,018	184,473	1,142,942
Asset impairment losses	469,815	307,304	149,569	926,688

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Network (communications systems)	Terminal products	Telecommunications software systems, services and other products	Total
Six months ended 30 June 2012				
Segment revenue				
Revenue of Telecommunications systems contracts	21,279,581	—	6,814,830	28,094,411
Sales of goods and services	—	14,248,064	299,423	14,547,487
Sub-total	21,279,581	14,248,064	7,114,253	42,641,898
Segment results	3,897,951	383,284	1,150,991	5,432,226
Unallocated gains				1,546,718
Unallocated expenses				(5,452,888)
Finance costs				(831,063)
Losses from fair-value changes				(31,439)
Gains from investment in associates and jointly controlled entities				(7,922)
Total profit				655,632
Income tax				(263,624)
Net profit				392,008
31 December 2012				
Total assets				
Segment assets	35,099,356	11,594,963	14,155,206	60,849,525
Unallocated assets				46,596,781
Sub-total				107,446,306
Total liabilities				
Segment liabilities	9,834,371	953,128	3,966,100	14,753,599
Unallocated liabilities				70,053,977
Sub-total				84,807,576
Supplemental information				
Six months ended 30 June 2012				
Depreciation and amortisation	362,641	242,812	121,239	726,692
Capital expenditure	673,033	450,640	225,010	1,348,683
Asset impairment losses	229,798	153,865	76,827	460,490

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group information

Geographic information

External revenue

	Six months ended 30 June 2013	Six months ended 30 June 2012
The PRC	**18,821,489**	20,884,864
Asia (excluding the PRC)	**6,327,118**	8,009,957
Africa	**3,034,884**	3,923,335
Europe, the Americas and Oceania	**9,392,721**	9,823,742
	37,576,212	42,641,898

External revenue is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2013	31 December 2012
The PRC	**11,719,736**	11,014,888
Asia (excluding the PRC)	**882,325**	1,084,075
Africa	**324,881**	343,192
Europe, the Americas and Oceania	**799,260**	789,003
	13,726,202	13,231,158

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets and deferred tax assets) are located.

Information of key customers

Revenue of telecommunications system contracts and terminal from two major customers amounted to RMB9,555,653,000 (six months ended 30 June 2012: Revenue from two major customers amounted to RMB9,933,279,000).

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis

The main financial instruments of the group, except for derivatives, include bank loans, cash and bank balances etc. The main purpose of these financial instruments is to financing for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts, with the aim of managing the exchange risk and interest rate risk of the Group's operations.

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk.

Classification of financial instruments

The book values of various financial instruments as the balance sheet date were as follows:

30 June 2013

Financial assets

	Financial assets at fair value through profit or loss	Loans and other receivables	Available for-sale financial assets	Held-to-maturity investments	Total
Cash	—	17,322,010	—	—	17,322,010
Trading financial assets	104,489	—	—	—	104,489
Available-for-sale financial assets	—	—	1,464,647	—	1,464,647
Held-to-maturity investments	—	—	—	160,505	160,505
Bills receivable	—	5,737,182	—	—	5,737,182
Trade receivables and long-term receivables	—	22,825,340	—	—	22,825,340
Factored trade receivables and factored long-term receivables	—	8,036,646	—	—	8,036,646
Other receivables (excluding dividends receivable)	—	1,605,611	—	—	1,605,611
Other non-current assets	—	3,117,665	—	—	3,117,665
	104,489	58,644,454	1,464,647	160,505	60,374,095

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

30 June 2013 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Trading financial liabilities	10,038	—	5,916	15,954
Bank loans	—	21,518,611	—	21,518,611
Bills payable	—	9,077,730	—	9,077,730
Trade payables	—	17,827,142	—	17,827,142
Bank advances on factored trade receivables and factored long-term receivables	—	8,042,731	—	8,042,731
Other payables (excluding accruals)	—	5,559,041	—	5,559,041
Bonds payable	—	5,987,792	—	5,987,792
Other non-current liabilities	—	312,645	3,427	316,072
	10,038	68,325,692	9,343	68,345,073

31 December 2012

Financial assets

	Financial assets at fair value through profit or loss	Loans and other receivables	Available for-sale financial assets	Total
Cash	—	24,126,423	—	24,126,423
Trading financial assets	106,297	—	—	106,297
Available-for-sale financial assets	—	—	1,092,335	1,092,335
Bills receivable	—	4,282,220	—	4,282,220
Trade receivables and long-term receivables	—	23,274,818	—	23,274,818
Factored trade receivables and factored long-term receivables	—	8,183,998	—	8,183,998
Other receivables (excluding dividends receivable)	—	2,018,941	—	2,018,941
Other non-current assets	—	3,386,821	—	3,386,821
	106,297	65,273,221	1,092,335	66,471,853

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

31 December 2012 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Trading financial liabilities	99,630	—	6,109	105,739
Bank loans	—	19,419,883	—	19,419,883
Bills payable	—	11,478,102	—	11,478,102
Trade payables	—	18,115,877	—	18,115,877
Bank advances on factored trade receivables and factored long-term receivables	—	8,187,416	—	8,187,416
Other payables (excluding accruals)	—	7,588,089	—	7,588,089
Bonds payable	—	10,126,127	—	10,126,127
Other non-current liabilities	—	345,408	10,747	356,155
	99,630	75,260,902	16,856	75,377,388

Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash and bank balances, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five accounted for 33.69% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group does not hold any collateral or other credit enhancements over the balance of trade receivables.

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Credit risk (continued)

For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 5 and 11.

The maturity profile of trade receivables, other receivables and long-term receivables as at 30 June 2013 was analysed as follows:

30 June 2013

			Overdue for			
	Total	Not overdue/not impaired	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	22,108,313	4,015,407	16,401,020	1,637,019	54,867	—
Long-term receivables	717,027	717,027	—	—	—	—
Other receivables	1,668,518	—	1,332,018	222,212	106,369	7,919

31 December 2012

			Overdue for			
	Total	Not overdue/not impaired	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	22,068,176	5,086,352	15,866,654	1,007,924	107,246	—
Long-term receivables	1,206,642	1,206,642	—	—	—	—
Other receivables	2,019,341	—	1,850,113	101,510	51,854	15,864

Liquidity risk

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g., trade receivables, bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, Bonds cum Warrants and other interest-bearing loans. With the exception of the non-current portion of bank borrowings, all borrowings are repayable within one year.

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

The maturity profile of financial assets and financial liabilities based on undiscounted contract cash flow is summarised as follows:

30 June 2013

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Indefinite	Total
Trading financial assets	15,340	89,149	—	—	—	—	104,489
Cash	15,915,691	1,406,319	—	—	—	—	17,322,010
Available-for-sale financial assets	—	—	—	—	—	1,464,647	1,464,647
Bills receivable	—	5,737,182	—	—	—	—	5,737,182
Trade receivables and long-term receivables	18,092,906	4,015,407	619,144	81,730	71,580	—	22,880,767
Factored trade receivables and factored long-term receivables	—	4,296,363	1,715,583	801,792	1,656,274	—	8,470,012
Other receivables (excluding dividends receivable)	1,605,611	—	—	—	—	—	1,605,611
Other non-current assets	—	23,040	989,231	383,456	1,712,122	—	3,107,849
	35,629,548	15,567,460	3,323,958	1,266,978	3,439,976	1,464,647	60,692,567

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	13,527,232	3,725,197	2,113,283	3,101,640	22,467,352
Trading financial liabilities	—	15,954	—	—	—	15,954
Bills payable	—	9,077,730	—	—	—	9,077,730
Trade payables	17,827,142	—	—	—	—	17,827,142
Bank advances on factored trade receivables and long-term receivables	—	4,302,448	1,646,954	743,013	1,491,305	8,183,720
Other payables (excluding accruals)	5,461,167	97,874	—	—	—	5,559,041
Bonds cum Warrants	—	252,000	6,252,000	—	—	6,504,000
Other non-current liabilities	69,415	—	94,819	76,103	263,438	503,775
	23,357,724	27,273,238	11,718,970	2,932,399	4,856,383	70,138,714

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

31 December 2012

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Indefinite	Total
Trading financial assets	44,919	61,378	—	—	—	—	106,297
Cash	22,659,635	1,466,788	—	—	—	—	24,126,423
Available-for-sale financial assets	—	—	—	—	—	1,092,335	1,092,335
Bills receivable	—	4,282,220	—	—	—	—	4,282,220
Trade receivables and long-term receivables	16,981,824	5,086,352	778,880	63,174	626,592	—	23,536,822
Factored trade receivables and factored long-term receivables	—	4,165,514	1,632,525	1,022,788	1,843,500	—	8,664,327
Other receivables (excluding dividends receivable)	2,018,941	—	—	—	—	—	2,018,941
Other non-current assets	—	—	713,701	536,870	2,171,336	—	3,421,907
	41,705,319	15,062,252	3,125,106	1,622,832	4,641,428	1,092,335	67,249,272

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	18,684,521	13,290	919,466	193,458	19,810,735
Trading financial liabilities	—	105,739	—	—	—	105,739
Bills payable	—	11,478,102	—	—	—	11,478,102
Trade payables	18,115,877	—	—	—	—	18,115,877
Bank advances on factored trade receivables and long-term receivables	—	4,211,344	1,594,306	966,975	1,754,183	8,526,808
Other payables (excluding accruals)	7,483,733	104,356	—	—	—	7,588,089
Bonds cum Warrants	—	4,270,134	252,000	6,252,000	—	10,774,134
Other non-current liabilities	68,868	—	95,095	79,814	261,760	505,537
	25,668,478	38,854,196	1,954,691	8,218,255	2,209,401	76,905,021

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the period under review ended 30 June 2013.

The Group monitors capital using a gearing ratio, which is interest-bearing liabilities divided by the sum of total equity and interest-bearing bank borrowings. The gearing ratios as at the ends of the reporting periods were as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Interest-bearing bank borrowings	**21,518,611**	19,419,883
Interest-bearing bonds	**5,987,792**	10,126,127
Bank advances on factored trade receivables and long-term receivables	**8,042,731**	8,187,416
Total interest-bearing liabilities	**35,549,134**	37,733,426
Total equity	**22,775,525**	22,638,730
Total owner's equity and interest-bearing liabilities	**58,324,659**	60,372,156
Gearing ratio	**61.0%**	62.5%

Market risk

Market risk refers to the risk of fluctuations in the fair value or future cash flow of financial instruments as a result of changes in market prices. Market risks include mainly interest rate risks and exchange rate risks.

Interest rate risk

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liability bearing interest at floating rates.

On 30 June 2013, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Market risk (continued)

Interest rate risk (continued)

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.3% and 14%. In addition, the Group borrowed a USD900 million loan at floating interest rates. The Group intends to enter into interest rate swaps with a nominal principal amount of no more than USD900 million at an appropriate timing as a hedge against the said USD loan, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. As at 30 June 2013, taking into account interest rate swaps for a nominal principal amount of USD100 million (31 December 2012: USD100 million) already executed, approximately 32% (31 December 2012: 32%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit	Increase/ (decrease) shareholders' equity*
For the six months ended 30 June 2013	**0.25%**	**(36,737)**	**4,890**
	(0.25%)	**36,737**	**(4,890)**
For the six months ended 30 June 2012	0.25%	(18,102)	3,285
	(0.25%)	18,102	(3,285)

* Excluding retained earnings.

Foreign currency risk

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow resulting from changes in foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Market risk (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity of a reasonably possible change in interest rates may lead to the changes in the Group's net profit, with all other variables held constant, as at the balance sheet date.

	Increase/ decrease in US dollars exchange rate	Effect on net profit
Six months ended 30 June 2013		
Weaker RMB against USD	**3%**	**37,241**
Stronger RMB against USD	**(3%)**	**(37,241)**
Six months ended 30 June 2012		
Weaker RMB against USD	3%	(33,373)
Stronger RMB against USD	(3%)	33,373

	Increase/ decrease in EUR dollars exchange rate	Effect on total profit
Six months ended 30 June 2013		
Weaker RMB against EUR	**5%**	**131,987**
Stronger RMB against EUR	**(5%)**	**(131,987)**
Six months ended 30 June 2012		
Weaker RMB against EUR	5%	189,086
Stronger RMB against EUR	(5%)	(189,086)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Fair value refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows:

The fair values of cash, bills receivable, trade receivables, bills payable and trade payables approximate their carrying values given relatively short outstanding periods.

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IX. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Fair value (continued)

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics.

The fair values of listed financial instruments are determined on the basis of market value.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 30 June 2013, the fair value of derivative financial assets represents the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The Group's measurement of fair value is distinguished into three levels:

The first level is the measurement of fair value as prices of identical assets or liabilities quoted in an active market on the date of measurement, where such prices are available; the second level is the measurement of fair value as prices of similar assets or liabilities quoted in an active market or prices of identical or similar assets or liabilities quoted in an inactive market on the date of measurement, after necessary adjustment, where such prices are available; the third level is the measurement of fair value on the basis of other parameters that reflect market participants' valuation of the assets or liabilities concerned, if no comparable traded market prices for identical or similar assets are available.

Financial instruments measured at fair value:

Six months ended 30 June 2013

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	**259,134**	**–**	**–**	**259,134**
Trading financial assets	**15,340**	**89,149**	**–**	**104,489**
Trading financial liabilities	**–**	**(19,381)**	**–**	**(19,381)**

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X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	30 June 2013			31 December 2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**16,277,796**	**1.0000**	**16,277,796**	13,494,688	1.0000	13,494,688
USD	**1,997,121**	**6.1787**	**12,339,612**	2,603,285	6.2855	16,362,945
EUR	**348,508**	**8.0536**	**2,806,744**	436,480	8.3176	3,630,467
Others			**1,375,627**			1,481,956
			32,799,779			34,970,056

Aging analysis of trade receivables:

	30 June 2013	31 December 2012
Within 1 year	**25,806,334**	27,903,156
1 to 2 years	**5,474,626**	4,005,785
2 to 3 years	**1,485,863**	1,436,695
Over 3 years	**2,567,724**	3,658,604
	35,334,547	37,004,240
Less: Bad debt provision for trade receivables	**2,534,768**	2,034,184
	32,799,779	34,970,056

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X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (continued)

	30 June 2013				31 December 2012			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Charge ratio (%)	Amount	Percentage (%)	Amount	Charge ratio (%)
Individually significant and for which bad debt provision has been separately made	**466,468**	**1**	**466,468**	**100**	493,355	1	493,355	100
For which bad debt provision has been collectively made								
0–6 months	**19,395,596**	**56**	**—**	**—**	25,706,014	69	—	—
7–12 months	**7,581,194**	**21**	**373,355**	**5**	2,145,615	6	109,689	5
13–18 months	**2,848,350**	**8**	**312,315**	**11**	1,710,459	5	163,492	10
19–24 months	**1,890,177**	**5**	**219,190**	**12**	2,262,339	6	150,959	7
2–3 years	**1,155,240**	**3**	**511,250**	**44**	1,393,169	4	383,394	28
Over 3 years	**1,997,522**	**6**	**652,190**	**33**	3,293,289	9	733,295	22
	34,868,079	**99**	**2,068,300**	**6**	36,510,885	99	1,540,829	4
	35,334,547	**100**	**2,534,768**	**7**	37,004,240	100	2,034,184	5

Movements in bad-debt provisions for trade receivables:

Opening balance	Provision for the period	Decrease during the period: Write-back	Decrease during the period: Write-off	Closing balance
2,034,184	**504,252**	**—**	**(3,668)**	**2,534,768**

As at 30 June 2013, trade receivables from top five accounts were as follows:

Customer	**Amount**	**As a percentage of total trade receivables**
Customer 1	3,352,114	9.49%
Customer 2	2,332,671	6.60%
Customer 3	2,260,653	6.40%
Customer 4	2,239,436	6.34%
Customer 5	1,959,174	5.54%
Total	12,144,048	34.37%

As at 30 June 2013, trade receivables amounting to RMB42,612,000 were due from shareholders holding 5% or more in the voting shares (31 December 2012: RMB101,445,000).

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X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (continued)

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". Factored trade receivables amounts to RMB3,681,305,000 (31 December 2012: RMB3,545,295,000). Bank advances on factored trade receivables amounts to RMB3,687,390,000 (31 December 2012: RMB3,548,713,000).

2. Other receivables

The aging analysis of other receivables:

	30 June 2013	31 December 2012
Within 1 year	**562,192**	3,286,587
1 to 2 years	**3,049,657**	968,400
2 to 3 years	**971,602**	63,202
Over 3 years	**286,561**	232,859
	4,870,012	4,551,048
Less: Bad debt provision for other receivables	**—**	—
	4,870,012	4,551,048

As at 30 June 2013, other receivables from top five accounts were as follows:

Customer	Amount	As a percentage of the total amount of other receivables
Customer 1	2,219,659	45.58%
Customer 2	1,318,291	27.07%
Customer 3	108,205	2.22%
Customer 4	103,580	2.12%
Customer 5	80,730	1.66%
Total	3,830,465	78.65%

As at 30 June 2013, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2012: Nil).

3. Available-for-sale financial assets

	30 June 2013	31 December 2012
Available-for-sale equity instruments	**373,555**	323,655

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X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term receivables

	30 June 2013	31 December 2012
Loans granted to subsidiaries (Note 1)	**4,105,678**	2,484,940
Installment payments for the provision of telecommunication system construction projects	**761,866**	1,251,208
Less: Bad debt provision for long-term receivables	**50,769**	51,647
	4,816,775	3,684,501

Note 1 Loans granted to subsidiaries set out above were unsecured, interest-free and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the period are as follows:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write-back	Write-off	
51,647	**—**	**(878)**	**—**	**50,769**

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables" amounting to RMB3,699,521,000 (31 December 2012: RMB3,582,669,000).

5. Long-term equity investments

		30 June 2013	31 December 2012
Equity method			
Joint ventures	(1)	**44,599**	44,559
Associates	(2)	**323,245**	349,193
Cost method			
Subsidiaries	(3)	**6,043,528**	6,191,055
Less: Provision for impairment in long-term equity Investments	(4)	**92,315**	92,315
		6,319,057	6,492,492

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(1) Joint ventures

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the period
普興移動通訊設備有限公司	43,500	44,559	40	44,599	33.85%	50%	–

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the period
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	836	(836)	–	30%	30%	–
Zhongxing Energy Company Limited	300,000	302,793	(23,230)	279,563	23.26%	23.26%	–
思卓中興(杭州)科技有限公司	22,845	19,455	162	19,617	49%	49%	–
上海中興群力信息科技有限公司	2,000	12,152	(363)	11,789	40%	40%	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,400	5,548	(827)	4,721	18%	40%	–
北京億科三友科技發展有限公司	6,844	5,932	(854)	5,078	20%	20%	–
		349,193	(25,948)	323,245			–

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
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X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	1,000,000
Nanjing ZTEsoft Technology Company Limited	89,921	89,921	–	89,921	80.1%	80.1%	–
Shenzhen ZNV Technology Company Limited	–	244,827	(244,827)	–	–	–	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	102,174	102,174	–	102,174	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	6,500	6,500	–	6,500	65%	65%	–
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	321,407	321,407	–	321,407	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	10,500	–	10,500	70%	70%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
ZTE ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the period
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
Telrise (Cayman) Telecom Limited	21,165	21,165	–	21,165	100%	100%	–
Wistron Telecom AB (Europe Research Institute)	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD	496	496	–	496	100%	100%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S. DE R.L DE C.V.	42	42	–	42	100%	100%	–
ZTE Do Brasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	–	6,582	100%	100%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–
Closed Joint Stock Company TK Mobile (Tajik)	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	–
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	300,000	300,000	(21,300)	278,700	30%	不適用	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	10,000	10,000	6,000	16,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
安徽中興通訊傳媒有限責任公司	300	300	–	300	100%	100%	–
深圳市中興高達技術有限公司	28,500	28,500	–	28,500	95%	95%	–
天津中興智聯科技有限公司	32,600	–	32,600	32,600	100%	100%	–
Shenzhen ZTE Cloudy Service Co., Ltd.	50,000	–	50,000	50,000	100%	100%	–
深圳市中興系統集成技術有限公司	30,000	–	30,000	30,000	100%	100%	–
		6,191,055	(147,527)	6,043,528			1,000,000

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(4) Provision for impairment in long-term equity investments

	Opening balance	Increase/ decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Limited	12,970	—	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Shenzhen ZTE Mobile Telecom Co., Ltd	17,657	—	17,657
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S. DE R.L DE C.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	—	496
	92,315	—	92,315

6. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Revenue	28,121,936	36,533,102
Other income	5,141,890	37,391
	33,263,826	36,570,493

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Costs of sales	**29,822,446**	33,554,616
Other operating expenses	**382**	276
	29,822,828	33,554,892

For the six months ended 30 June 2013, operating revenue from the top tive customers was as follows:

Name of customer	**Amount**	**As a percentage of operating revenue %**
Customer 1	4,547,689	13.67%
Customer 2	3,851,033	11.58%
Customer 3	3,357,197	10.09%
Customer 4	2,360,504	7.10%
Customer 5	2,173,425	6.53%
	16,289,848	48.97%

Sales to the top five customers of the Group generated revenue of RMB16,289,848,000 for six months ended 30 June 2013 (six months ended 30 June 2012: RMB19,051,427,000), accounting for 48.97% (six months ended 30 June 2012: 52.10%) of the operating revenue of the Group respectively.

7. Investment income

	Six months ended 30 June 2013	Six months ended 30 June 2012
Investment income from long-term equity investment under equity method	**(25,908)**	(20,693)
Investment income from long-term equity investment under cost method	**1,000,817**	1,738,995
Investment income/(loss) from the disposal of trading financial instruments	**(18,451)**	13,285
Investment income arising from the disposal of long term equity investments	**792,574**	574
	1,749,032	1,732,161

As at 30 June 2013, the Company was not subject to significant restrictions in remitting its investment income.

Notes to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

X. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

8. Supplemental information on the cash flow statement

Reconciliation of net profit/(loss) to cash flow from operating activities:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Net profit/(loss)	**(719,664)**	(1,168,888)
Add: Impairment losses	**672,444**	324,196
Depreciation of fixed assets	**324,235**	339,691
Amortisation of intangible assets and development cost	**125,717**	92,675
Amortisation of long-term deferred assets	**6,003**	—
Loss on disposal of fixed assets, intangible assets and other long term assets	**3,424**	8,411
Loss/(profit) from changes in fair value	**(90,033)**	21,685
Finance expenses	**666,660**	343,056
Investment income	**(1,749,032)**	(1,732,161)
(Increase)/decrease in deferred tax assets	**(23,572)**	25,330
(Increase)/decrease in inventories	**(183,806)**	2,149,174
(Increase)/decrease in operating receivables	**(9,528,981)**	(3,355,931)
Increase/(decrease) in operating payables	**4,445,889**	(552,696)
Equity settled share expenses	**—**	3,666
(Increase)/decrease in cash not readily available for funding payments	**397,908**	86,148
Net cash flows from operating activities	**(5,652,808)**	(3,415,644)

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2013
Loss from the disposal of non-current assets	(7,171)
Investment income from disposal of equity investment	852,567
Profit and loss of changes in fair value arising from trading financial assets and trading financial liabilities except for valid straddle business relevant to normal business of the company, as well as investment income realized from disposal of trading financial assets and trading financial liabilities	141,595
Net amount of other non-operating income and expenses	262,872
Effect of income tax	187,479
	1,062,384

Note The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Six months ended 30 June 2013	Reason
Refund of VAT on software products	1,117,154	In line with national policies and received on an ongoing basis

2. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs. Ernst & Young is the auditor for the Group and Company's financial statements prepared under HKFRSs for the period.

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2013

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	1.43%	RMB0.09	RMB0.09
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(3.48%)	RMB(0.22)	RMB(0.22)

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE (CONTINUED)

30 June 2012

	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share Diluted
Net profit attributable to ordinary shareholders of the Company	1.00%	RMB0.07	RMB0.07
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(0.24%)	RMB(0.02)	RMB(0.02)

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Bills receivable	Mainly attributable to the increase in receipts in the form of acceptance bills
Available-for-sale financial assets	Mainly attributable to the Company's acquisition of restricted shares of China All Access
Held-to-maturity investments	Mainly attributable to the Company's acquisition of convertible bonds of China All Access
Long-term trade receivables	Mainly attributable to the decrease during the period of customer payment terms with longer grace periods
Construction in progress	Mainly attributable to the reclassification of certain construction in progress as fixed assets
Long-term deferred assets	Mainly attributable to the amortization during the period in telecommunications equipment assets which were subject to profit-sharing agreements with carriers
Trading financial liabilities	Mainly attributable to the settlement of upon maturity of certain derivative investments during the period
Taxes payable	Mainly attributable to the expedited export rebate application process and the increase of VAT payable during the period
Dividend payable	Mainly attributable to the payment of dividend declared in previous period by certain subsidiaries during the period
Deferred income	Mainly attributable to the increase in income-related government subsidies
Non-current liabilities due within one year	Mainly attributable to the redemption of Bonds cum warrants
Long-term loans	Mainly attributable to the transfer of syndicate loans to short-term loans because of the Company's inability to meet required financial benchmarks as at the end of 2012 and the retransfer of the same to long-term loans for the period after obtaining an exemption letter
Other non-current liabilities	Mainly attributable to the increase in staff housing payments charged to other non-current liabilities for the period

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
Currency: RMB'000
(English translation for reference only)

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS (CONTINUED)

Income statement items	Analysis of reasons
Business tax and surcharge	Mainly attributable to the decrease in taxable income subject to business tax
Finance costs	Mainly attributable to the increase in exchange losses for the period
Asset impairment losses	Mainly attributable to the increase in bad debts provisions for trade receivables during the period
Gains/losses from change in fair values	Mainly attributable to gains arising from the revaluation of fair value for certain derivatives and investment properties at the end of the investment period for the period
Investment income	Mainly attributable to investment income arising from the disposal of equity interests in ZNV during the period
Non-operating expenses	Mainly attributable to the increase in penalty payment expenses for the period
Income tax expenses	Mainly attributable to the increase in profit reported by certain subsidiaries
Minority interests	Mainly attributable to the decrease in the percentage of minority interests of certain subsidiaries and the deconsolidation of certain subsidiaries with a higher level of minority interests following disposal of equity interests in these subsidiaries in the second half of 2012, whereas these subsidiaries were included in the consolidated statements for the same period of 2012
Other comprehensive income	Mainly attributable to the increase in other comprehensive income for the same period of 2012 reflecting the appreciation of owned properties reclassified to investment properties upon valuation and the absence of such appreciation during the period under review
Comprehensive income attributable to non-controlling interests	Mainly attributable to the decrease in the percentage of minority interests of certain subsidiaries and the deconsolidation of certain subsidiaries with a higher level of minority interests following disposal of equity interests in these subsidiaries in the second half of 2012, whereas these subsidiaries were included in the consolidated statements for the same period of 2012

Cash flow statement items	Analysis of reasons
Net cash flow from investing activities	Mainly attributable to cash received from the transfer of equity interests in Shenzhen ZNV Technology Co., Ltd during the period
Net cash flow from financing activities	Mainly attributable to the increase in cash paid for debt repayment and the decrease in cash received from loan drawdowns
Effect of exchange rate movements on cash	Mainly attributable to exchange gains due to exchange rate volatility for the period versus exchange losses due to exchange rate volatility for the same period last year

Consolidated Statement of Comprehensive Income

(Prepared under HKFRSs)
Six months ended 30 June 2013

	Notes	**Six months ended 30 June 2013 (unaudited) RMB'000**	Six months ended 30 June 2012 (unaudited) RMB'000
Revenue	4	**37,576,212**	42,641,898
Cost of sales		**(27,925,083)**	(32,140,656)
Gross profit		**9,651,129**	10,501,242
Other income and gains	4	**2,685,222**	1,713,512
Research and development costs		**(3,627,555)**	(4,025,433)
Selling and distribution expenses		**(4,740,242)**	(5,402,346)
Administrative expenses		**(1,084,730)**	(1,153,256)
Other expenses		**(1,346,295)**	(408,645)
Finance costs	6	**(766,104)**	(561,520)
Share of profits and losses of:			
Jointly-controlled entities		**40**	(893)
Associates		**(29,684)**	(7,029)
Profit/(loss)before tax	5	**741,781**	655,632
Income tax expense	7	**(412,537)**	(263,624)
Profit/(loss) for the period		**329,244**	392,008
Attributable to:			
Owners of the parent		**310,012**	244,875
Non-controlling interests		**19,232**	147,133
		329,244	392,008
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic		**RMB0.09**	RMB0.07
Diluted		**RMB0.09**	RMB0.07
Other comprehensive income			
Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the period		**7,513**	(9,344)
Changes in fair value of available-for-sale investments		**60,487**	5,919
Exchange differences on translation of foreign operations		**(167,838)**	(204,646)
Revaluation gain upon transfer from owner occupied properties to investment properties		**—**	932,670
Other comprehensive income for the period, net of tax		**(99,838)**	724,599
Total comprehensive income — for the period		**229,406**	1,116,607
Attributable to:			
Owners of the parent		**209,879**	954,853
Non-controlling interests		**19,527**	161,754
		229,406	1,116,607

Consolidated Statement of Financial Position

(Prepared under HKFRSs)
30 June 2013

	Notes	30 June 2013 (unaudited) RMB'000	31 December 2012 (audited) RMB'000
Non-current assets			
Property, plant and equipment		**8,065,828**	8,011,028
Prepaid land lease payments		**991,464**	889,351
Intangible assets		**2,881,567**	2,624,944
Investment properties		**1,765,400**	1,686,158
Investments in jointly-controlled entities		**46,854**	46,814
Investments in associates		**388,263**	408,954
Available-for-sale investments		**1,464,647**	1,092,335
Held-to-maturity investments		**160,505**	—
Long-term trade receivables	11	**717,027**	1,206,642
Factored long-term trade receivables		**3,740,283**	4,018,484
Deferred tax assets		**1,193,542**	1,218,605
Pledged deposits		**2,858,453**	3,157,077
Long-term prepayments, deposits and other receivables		**415,254**	447,226
Total non-current assets		**24,689,087**	24,807,618
Current assets			
Prepaid land lease payments		**21,943**	19,677
Inventories		**11,577,111**	11,442,389
Amount due from customers for contract works	10	**14,133,330**	13,666,100
Trade and bills receivables	11	**27,845,495**	26,350,396
Factored trade receivables		**4,296,363**	4,165,514
Prepayments, deposits and other receivables		**4,090,124**	5,227,077
Trading financial assets		**104,489**	106,297
Pledged deposits		**1,366,662**	1,380,180
Time deposits with original maturity of over three months		**39,657**	86,608
Cash and cash equivalents		**15,915,691**	22,659,635
Total current assets		**79,390,865**	85,103,873
Current liabilities			
Trade and bills payables	12	**26,904,872**	29,593,979
Amount due to customers for contract works	10	**3,686,669**	3,459,545
Other payables and accruals		**12,907,020**	14,833,771
Interest-bearing bank borrowings		**13,239,693**	18,429,893
Bank advances on factored trade receivables		**4,302,448**	4,168,932
Bonds cum warrants		**—**	4,018,134
Tax payable		**616,043**	608,336
Derivative financial instruments		**15,954**	105,739
Dividends payable		**116,112**	205,783
Total current liabilities		**61,788,811**	75,424,112
Net current assets		**17,602,054**	9,679,761
Total assets less current liabilities		**42,291,141**	34,487,379

Consolidated Statement of Financial Position

(Prepared under HKFRSs)
30 June 2013

	Notes	**30 June 2013 (unaudited) RMB'000**	31 December 2012 (audited) RMB'000
Total assets less current liabilities		**42,291,141**	34,487,379
Non-current liabilities			
Derivative financial instruments		**3,427**	10,747
Interest-bearing bank borrowings		**8,278,918**	989,990
Bank advances on factored long-term trade receivables		**3,740,283**	4,018,484
Bonds payable		**5,987,792**	6,107,993
Deferred tax liabilities		**139,900**	139,900
Financial guarantee contract		**3,689**	3,689
Provision for retirement benefits		**53,440**	54,041
Other long-term payables		**1,308,167**	523,805
Total non-current liabilities		**19,515,616**	11,848,649
Net assets		**22,775,525**	22,638,730
Equity			
Equity attributable to owners of the parent			
Issued capital		**3,440,078**	3,440,078
Reserves		**18,272,275**	18,062,396
		21,712,353	21,502,474
Non-controlling interests		**1,063,172**	1,136,256
Total equity		**22,775,525**	22,638,730

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under HKFRSs)
Six months ended 30 June 2013

	Attributable to shareholders of the parent company											
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share incentive scheme reserve (unaudited) RMB'000	Shares subject to lock-up under the share incentive scheme (unaudited) RMB'000	Statutory Reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained Profits (unaudited) RMB'000	Proposed final dividends (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling Interests (unaudited) RMB'000	Total equity (unaudited) RMB'000
At 1 January 2013	3,440,078	9,369,499	(16,856)	–	–	1,587,430	(582,699)	7,705,022	–	21,502,474	1,136,256	22,638,730
Profit/(loss) for the period	–	–	–	–	–	–	–	310,012	–	310,012	19,232	329,244
Other comprehensive income for the period:												
Cash flow hedges	–	–	7,513	–	–	–	–	–	–	7,513	–	7,513
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(169,502)	–	–	(169,502)	1,664	(167,838)
Changes in fair value of available-for-sale investments	–	61,856	–	–	–	–	–	–	–	61,856	(1,369)	60,487
Appreciation of investment properties upon valuation	–	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	61,856	7,513	–	–	–	(169,502)	310,012	–	209,879	19,527	229,406
Issue of shares	–	–	–	–	–	–	–	–	–	–	–	–
Capital reduction by shareholders	–	–	–	–	–	–	–	–	–	–	(48,990)	(48,990)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(63,221)	(63,221)
Effect of changes of other equity holders' interests in associates by the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–
Capital contributions by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	19,600	19,600
Final 2012 dividend declared	–	–	–	–	–	–	–	–	–	–	–	–
Share incentive scheme												
– Equity-settled share expenses	–	–	–	–	–	–	–	–	–	–	–	–
– Unlocking the lock-up shares	–	–	–	–	–	–	–	–	–	–	–	–
Proposed final 2012 dividend	–	–	–	–	–	–	–	–	–	–	–	–
Transfer from capital reserve	–	–	–	–	–	–	–	–	–	–	–	–
At 30 June 2013	3,440,078	9,431,355	(9,343)	–	–	1,587,430	(752,201)	8,015,034	–	21,712,353	1,063,172	22,775,525

Consolidated Statement of Changes in Equity

(Prepared under HKFRSs)
Six months ended 30 June 2013

	Attributable to shareholders of the parent company											
	Issued Capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserves (unaudited) RMB'000	Share incentive scheme reserve (unaudited) RMB'000	Shares subject to lock-up under the share incentive scheme (unaudited) RMB'000	Statutory Reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained Profits (unaudited) RMB'000	Proposed final dividends (unaudited) RMB'000	Total (unaudited) RMB'000	Non-controlling Interests (unaudited) RMB'000	Total Equity (unaudited) RMB'000
At 1 January 2012	3,440,078	8,531,425	(4,120)	12,502	(40,537)	1,587,891	(527,696)	10,545,984	686,190	24,231,717	2,057,058	26,288,775
Profit/(loss) for the period	–	–	–	–	–	–	–	244,875	–	244,875	147,133	392,008
Other comprehensive income for the period:												
Cash flow hedges	–	–	(9,344)	–	–	–	–	–	–	(9,344)	–	(9,344)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(219,267)	–	–	(219,267)	1,166	(218,101)
Changes in fair value of available-for-sale investments	–	5,919	–	–	–	–	–	–	–	5,919	13,455	19,374
Appreciation of investment properties upon valuation	–	932,670	–	–	–	–	–	–	–	932,670	–	932,670
Total comprehensive income for the period	–	938,589	(9,344)	–	–	–	(219,267)	244,875	–	954,853	161,754	1,116,607
Issue of shares	–	–	–	–	–	–	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	(461)	–	–	–	(461)	–	(461)
Effect of changes of other equity holders' interests in associates by the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,392	1,392
Dividends declared to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(37,792)	(37,792)
Capital contributions by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–
Final 2011 dividend declared	–	–	–	–	–	–	–	–	(686,190)	(686,190)	–	(686,190)
Share incentive scheme												
– Equity-settled share expenses	–	–	–	3,666	–	–	–	–	–	3,666	–	3,666
– Unlocking the lock-up shares	–	–	–	–	–	–	–	–	–	–	–	–
Proposed final 2011 dividend	–	–	–	–	–	–	–	–	–	–	–	–
Transfer from capital reserve	–	–	–	–	–	–	–	–	–	–	–	–
At 30 June 2012	3,440,078	9,470,014	(13,464)	16,168	(40,537)	1,587,430	(746,963)	10,790,859	–	24,503,585	2,182,412	26,685,997

Consolidated Cash Flow Statement

(Prepared under HKFRSs)
Six months ended 30 June 2013

Items	Six months ended 30 June 2013 (unaudited) RMB'000	Six months ended 30 June 2012 (unaudited) RMB'000
Net cash outflow from operating activities	(5,660,633)	(3,781,082)
Net cash outflow from investing activities	(419,801)	(1,682,810)
Net cash inflow/(outflow) from financing activities	(707,027)	5,408,579
Net increase in cash and cash equivalents	(6,787,461)	(55,313)
Cash and cash equivalents at beginning of year	22,659,635	20,662,089
Effect of exchange rate changes, net	43,517	(63,316)
Cash and cash equivalents at end of period	15,915,691	20,543,460
Analysis of balance of cash and cash equivalents		
Unrestricted bank balances and cash	15,479,489	20,490,281
Time deposits with original maturity of less than three months	436,202	53,179
	15,915,691	20,543,460

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment, mobile end products and solutions.

In the opinion of the directors, in accordance with the Chapter 8 Qualifications for Listing of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 equity investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised HKFRSs and HKASs

HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendment to HKFRS 13	HKFRS 13 (Revised) Fair Value Measurement
Amendment to HKAS 1	HKAS 1 (Revised) Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income

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 has adopted the amendments 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 has adopted HKFRS 13 from 1 January 2013.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Impact of new and revised HKFRSs and HKASs (continued)

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 has adopted the amendments from 1 January 2013.

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

3. 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 before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and jointly-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 a jointly-controlled entity 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.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

3. OPERATING SEGMENT INFORMATION (CONTINUED)

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2013				
Segment revenue:				
Contract revenue from external customers	19,050,466	—	6,029,380	25,079,846
Sale of goods and services	—	12,460,868	35,498	12,496,366
Total	19,050,466	12,460,868	6,064,878	37,576,212
Segment results	4,080,340	254,355	977,198	5,311,893
Bank and other interest income				88,086
Dividend income and unallocated gains				2,597,136
Unallocated expenses				(6,459,586)
Finance costs				(766,104)
Share of profits and losses of:				
Jointly-controlled entities				40
Associates				(29,684)
Profit/(loss) before tax				741,781
30 June 2013				
Segment assets	37,346,779	13,073,161	11,889,669	62,309,609
Investment in jointly-controlled entities				46,854
Investment in associates				388,263
Unallocated assets				41,335,226
Total assets				104,079,952
Segment liabilities	10,594,317	1,110,229	3,372,792	15,077,338
Unallocated liabilities				66,227,089
Total liabilities				81,304,427
Six months ended 30 June 2013				
Other segment information:				
Provision for asset impairment	469,815	307,304	149,569	926,688
Depreciation and amortisation	402,499	263,273	128,139	793,911
Capital expenditure	579,451	379,018	184,473	1,142,942

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

3. OPERATING SEGMENT INFORMATION (CONTINUED)

	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2012				
Segment revenue:				
Contract revenue from external customers	21,279,581	—	6,814,830	28,094,411
Sale of goods and services	—	14,248,064	299,423	14,547,487
Total	21,279,581	14,248,064	7,114,253	42,641,898
Segment results	3,897,951	383,284	1,150,991	5,432,226
Bank and other interest income				67,994
Dividend income and unallocated gains				1,645,518
Unallocated expenses				(5,920,664)
Finance costs				(561,520)
Share of profits and losses of:				
Jointly-controlled entities				(893)
Associates				(7,029)
Profit/(loss) before tax				655,632
31 December 2012				
Segment assets	35,099,356	11,594,963	14,155,206	60,849,525
Investment in jointly-controlled entities				46,814
Investment in associates				408,954
Unallocated assets				48,606,198
Total assets				109,911,491
Segment liabilities	9,834,371	953,128	3,966,100	14,753,599
Unallocated liabilities				72,519,162
Total liabilities				87,272,761
Six months ended 30 June 2012				
Other segment information:				
Provision for asset impairment	229,798	153,865	76,827	460,490
Depreciation and amortisation	362,641	242,812	121,239	726,692
Capital expenditure	673,033	450,640	225,010	1,348,683

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2013 and 2012 is set out in the following table:

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
The PRC	**18,821,489**	20,884,864
Asia (excluding the PRC)	**6,327,118**	8,009,957
Africa	**3,034,884**	3,923,335
Europe, Americas and Oceania	**9,392,721**	9,823,742
Total	**37,576,212**	42,641,898

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Revenue		
Telecommunications system contracts	**25,079,846**	28,094,411
Sale of goods and services	**12,496,366**	14,547,487
	37,576,212	42,641,898
Other income		
VAT refunds for software products#	**1,117,154**	1,152,837
Bank interest income	**88,086**	67,994
Others##	**439,498**	393,881
	1,644,738	1,614,712
Gains		
Gains from trading financial assets	**109,144**	32,240
Fair value gains on investment properties	**53,744**	—
Gains from equity investment###	**870,095**	64,453
Dividends received	**7,501**	2,107
	1,040,484	98,800
	2,685,222	1,713,512

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Others mainly represent government subsidies, gains from contract penalties and other gains.

On 28 December 2012, ZTE and ZTE HK entered into agreements with Ocean Delight, respectively, in respect of the transfer of equity interests in ZNV, pursuant to which 81% equity interests in ZNV (disposed of as to 65%a by ZTE and 16% by ZTE HK) was sold to Ocean Delight in aggregate. On 16 January 2013, change of registration with industrial and commercial administration authorities were completed in respect of the transfer of equity interests in ZNV. Following the change, Ocean Delight became the shareholder of ZNV and ZTE HK held 9% of the equity interests of ZNV. The Company recognized investment gains of RMB852,567,000 for the reporting period based on the consideration for the disposal and the value of the equity interests.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Cost of goods and services	**25,196,409**	28,861,862
Depreciation	**481,146**	504,555
Amortisation of land lease payments	**9,365**	8,655
Amortisation of intangible assets other than deferred development costs	**57,973**	58,475
Amortisation of development expenses	**245,427**	155,007
Provision for bad and doubtful debts*	**627,247**	208,147
Provision for warranties**	**193,321**	241,360
Write-down of inventories to net realisable value**	**299,441**	252,343
Exchange difference, net	**638,028**	141,321
Loss on disposal of fixed assets*	**7,171**	12,068
Equity-settled share expense	**—**	3,666

* Provision for bad and doubtful debts, loss on disposal of fixed assets are included in "Other expenses" on the face of the consolidated income statement.

** Provision for warranties and Write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

6. FINANCE COSTS

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Interest on bank loans wholly repayable within five years	**366,292**	225,509
Interest on bonds cum warrants	**16,998**	93,720
Interest on bonds payable	**128,666**	—
Total interest expense on financial liabilities not at fair value through profit or loss	**511,956**	319,229
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	**254,148**	242,291
	766,104	561,520

7. INCOME TAX

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Group:		
Current — Mainland China	**299,836**	223,880
Current — Overseas	**87,638**	77,613
Deferred	**25,063**	(37,869)
Total tax charge for the period	**412,537**	263,624

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

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

The Company was subject to an enterprise income tax rate of 15% for the years 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxingxin Software Company Limited, a software enterprise established in December 2009, was entitled to enterprise income tax exemption in the first and second profitable years and was entitled to a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fifth profitable year.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

7. INCOME TAX (CONTINUED)

Nanjing Zhongxing New Software Company Limited, a software enterprise established in December 2009, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. It is subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fourth profitable year.

ZTE ICT Company Limited, a software enterprise established in September 2009, was entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. It was subject to a 50% reduction in the enterprise income tax rate of 25% applicable as the current year is its fifth profitable year.

Shenzhen Zhongxing Software Company Limited is a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years 2011 to 2012. The enterprise income tax rate applicable was 10%.*

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Mobile Technology Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hi-tech Industrial Park.

ZTE Microelectronics Technology Company Limited was a national-grade hi-tech enterprise and an IC Design Enterprise under the National Planning Layout for the years 2011 to 2012. The enterprise income tax rate applicable was 10%*.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise in Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Nanjing ZTEsoft Technology Company Limited was a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years 2011 to 2012. The enterprise income tax rate applicable was 10%.*

Xi'an Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

7. INCOME TAX (CONTINUED)

Wuxi Zhongxing Optoelectronics Technologies Company Limited was subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Wuxi State's High-tech Industrial Development Zone.

* The competent PRC government authorities has yet to start the processing of application for the status of Software Enterprise and IC Design Enterprise under the National Planning Layout for the years 2013-2014.

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2013 (Same period in 2012: nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share amount is computed by dividing the net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the parent Company for the period	**310,012**	244,875

	Six months ended 30 June 2013 Shares'000	Six months ended 30 June 2012 Shares'000
Shares		
Weighted average number of ordinary shares of the Company in issue (Note 1)	**3,437,541**	3,430,952
Diluting effect — weighted average number of ordinary shares		
Restricted Shares under share incentive scheme (Note 2)	**—**	6,874
Adjusted weighted average number of ordinary shares in issue	**3,437,541**	3,437,826

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2013

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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.

Note 2: During the reporting period, the unlocking of restricted shares under the Phase I Share Incentive Scheme of the Company (less 2,536,742 shares proposed to be lapsed) had been completed and there were no potentially dilutive ordinary shares.

10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2013 RMB'000	31 December 2012 RMB'000
Amount due from customers for contract works	**14,133,330**	13,666,100
Amount due to customers for contract works	**(3,686,669)**	(3,459,545)
	10,446,661	10,206,555
Contract costs incurred plus recognized profits/(loss) to date	**42,932,387**	43,111,813
Less: Progress payment for contract works	**87,758**	193,877
Progress billings	**32,397,968**	32,711,381
	10,446,661	10,206,555

11. TRADE AND BILLS RECEIVABLES

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 terms are normally 90 days, and is extendable up to one year depending on customers' creditworthiness 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 balance sheet date, based on the invoice date and net of provision, is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 6 months	**22,959,275**	23,293,955
7 to 12 months	**3,911,361**	3,147,913
1 to 2 years	**1,637,019**	1,007,925
2 to 3 years	**54,867**	107,245
Over 3 years	**—**	—
	28,562,522	27,557,038
Current portion of trade and bills receivables	**(27,845,495)**	(26,350,396)
Long-term portion	**717,027**	1,206,642

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11. TRADE AND BILLS RECEIVABLES (CONTINUED)

The balances due from the controlling company, jointly-controlled entities, associates and other related companies included in the above are as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
The controlling shareholder	**626**	346
Jointly-controlled entities	**42,531**	100,819
Related companies	**35,106**	2,663
	78,263	103,828

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

12. TRADE AND BILLS PAYABLES

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within 6 months	**26,511,808**	29,083,388
7 to 12 months	**106,220**	177,299
1 to 2 years	**213,460**	267,454
2 to 3 years	**34,468**	31,811
Over 3 years	**38,916**	34,027
Total	**26,904,872**	29,593,979

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
The controlling shareholder	**35,762**	65,376
Associates	**4,457**	19,080
Related companies	**85,881**	138,991
Total	**126,100**	223,447

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

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

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13. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the Group's financial statements were as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Guarantees given to banks in connection with borrowing to customers	**64,847**	65,179
Guarantees given to banks in respect of performance bonds	**8,521,978**	7,814,811
	8,586,825	7,879,990

(b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB48,014,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB20,643,000) was to be paid by the Company. The Company has set aside a provision for such amount at the end of the reporting period. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(c) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth Division. China Construction Fifth Division had appealed against the said judgement. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgement of the case of China Construction Fifth Division's appeal at the Intermediate Court.

In October and November 2009, the Group further instituted two lawsuits with the Nanshan District People's Court, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. As of now the two cases have suspended.

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13. CONTINGENT LIABILITIES (CONTINUED)

(c) (continued)

In July 2009, China Construction Fifth Division instituted a separate lawsuit with the Shenzhen Intermediate People's Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The Shenzhen Intermediate People's Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14,497,000 together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20,150,000 together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Provincial Higher People's Court against the said judgement.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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13. CONTINGENT LIABILITIES (CONTINUED)

(e) On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier.

Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(f) On 9 December 2011, the Company and ZTE USA received a petition for arbitration filed by four USA companies and a natural person named ERIC STEINMANN (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that the Company and ZTE USA had committed acts of breach of contract and fraud, and demanded cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court. As the arbitration procedures of the United States do not impose any limit to the claim amount that an applicant may demand, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

On 12 October 2012, the Company and ZTE USA filed a defense and a counter-claim with ICDR, alleging that CLEARTALK had committed breach of contract, fraud and abuse of litigation rights and had seriously compromised the interests of the Company. On 14 June 2013, ICDR stated its support for the motion submitted by the Company and ZTE USA requesting rejection of ERIC STEINMANN's application for arbitration.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

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13. CONTINGENT LIABILITIES (CONTINUED)

(g) On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (equivalent to approximately RMB221 million). On 20 January 2012, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provided that the agreement should apply to ICMS tax incurred prior to May 2009, ZTE Brazil was not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 29 November 2012, the tax bureau of Sao Paulo State issued a notice that ZTE Brazil had paid the ICMS or made a remedial payment thereof and recommended suspension of execution of the notice of administrative penalty. The case is pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB285 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements. On the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State. ZTE Brazil also pointed out that the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions of the Group for the current period.

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13. CONTINGENT LIABILITIES (CONTINUED)

(h) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB92,744,200). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB245 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

Based on the progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(i) On 29 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA, Inc. ("ZTE USA"), a wholly-owned subsidiary of the Company a wholly-owned subsidiary of ZTE. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States).

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The Company has appointed an independent legal counsel to conduct active defending in respect of the said case. As of now, there has not been any substantial progress in this case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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13. CONTINGENT LIABILITIES (CONTINUED)

(j) In May 2012, a U.S. company filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been temporarily suspended. The Company has appointed an external legal counsel to conduct active defence in respect of the said case. As of now, there has been no substantial progress of the case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(k) In July 2012, a U.S. company filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants, although no specific amount of compensation was named. The litigation procedure at the District Court has been temporarily suspended. The Company has appointed an external legal counsel to conduct active defence in respect of the said case. As of now, there has been no substantial progress of the case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Save as disclosed above, the Company and the Group had no other significant contingent liabilities as at 30 June 2013.

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 42 years.

At 30 June 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Within one year	**278,218**	432,442
In the second to fifth years, inclusive	**349,116**	877,456
After five years	**113,177**	114,104
	740,511	1,424,002

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15. COMMITMENTS

Capital commitment

	30 June 2013 RMB'000	31 December 2012 RMB'000
Contracted, but not provided for:		
Land and buildings	**281,114**	484,417
Investments in associates	**60,785**	41,712
	341,899	526,129
Authorised, but not contracted for:		
Land and buildings	**21,514,703**	21,600,404

16. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

	Notes	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**92,496**	100,634
Sales of finished goods	(b)	**952**	943
Rental expense	(c)	**4,414**	4,414
Associates:			
Purchase of raw materials	(a)	**38,651**	122,419
Sales of finished goods	(b)	**2,028**	6,137
Rental income	(e)	**4,376**	—
Jointly-controlled entities:			
Sales of finished goods	(b)	**27,959**	43,894
Rental income	(e)	**39**	—
Entities controlled by key management personnel of the Group:			
Purchase of raw materials	(a)	**164,615**	109,280
Sales of finished goods	(b)	**3**	18,316
Rental expense	(d)	**21,355**	25,655
Rental income	(e)	**1,073**	848
Sales of an associate	(f)	**—**	25,174
Entities controlled by the controlling shareholder:			
Purchase of raw materials	(a)	**137,351**	144,093
Sales of finished goods	(b)	**1,674**	358
Rental income	(e)	**549**	—

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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16. RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at RMB40 per square metre.

(d) The rental expense was charged at RMB115 per square metre for the period from 1 January 2013 to 17 April 2013 and RMB130 per square metre for the period from 18 April 2013 to 30 June 2013.

(e) The rental income was earned from RMB27 to RMB121.67 per square metre.

(f) Zhongxing Development acquired equity interests in Zhongxing Hetai for a consideration of RMB25,174,000. The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012.

(II) Compensation of key management personnel of the Group

	Six months ended 30 June 2013 RMB'000	Six months ended 30 June 2012 RMB'000
Short-term employee benefits	**9,735**	5,556

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 August 2013.

Documents Available for Inspection

(I) Text of the 2013 interim report signed by the Chairman of the Board of Directors;

(II) Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2013 prepared under the PRC ASBEs and HKFRSs, respectively, and duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn;

(IV) Articles of Association.

By order of the Board
Hou Weigui
Chairman

21 August 2013