ZTE中兴 中兴通讯股份有限公司
ZTE CORPORATION

2013
Annual Report

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 there are no false information and misleading statements in this report nor any material omissions therefrom, 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 Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf.

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

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

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.

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

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, the Chinese version shall prevail, except for the financial report prepared in accordance with Hong Kong Financial Reporting Standards, of which the English version shall prevail.

Contents

Reminder of Significant Risks

China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon. Investors are asked to beware investment risks.

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, the 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
"Company Law"	Company Law of the People's Republic of China
"Securities Law"	Securities Law of the People's Republic of China
"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
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"CSRC"	China Securities Regulatory Commission
"Shenzhen CSRC"	The CSRC Shenzhen Bureau
"Shenzhen Stock Exchange"	The Shenzhen Stock Exchange
"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
"Nationz Technologies"	Nationz Technologies, Inc.
"China All Access"	China All Access (Holdings) Limited
"ZTE HK"	ZTE (H.K.) Limited
"Speed"	Huizhou Speed Wireless Technology Co., Ltd.
"ZTE Capital"	Shenzhen ZTE Capital Management Company Limited

Definitions

"Zhonghe Chunsheng Fund"	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
"Ocean Delight"	Ocean Delight Investments Limited
"ZNV"	Shenzhen ZNV Technology Co., Ltd.
"BOCHK"	Bank of China (Hong Kong) Limited
"Zhongxingxin"	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
"Zhongxing Xinyu"	Shenzhen Zhongxing Xinyu FPC Company Limited
"Mobi Antenna"	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
"Huatong"	Huatong Technology Company Limited
"Nanchang Software"	Zhongxing Software Technology (Nanchang) Company Limited
"Zhongxing Hetai"	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
"Zhongxing Development"	Zhongxing Development Company Limited
"Chongqing Zhongxing Development"	Chongqing Zhongxing Development Company Limited
"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
"CASC"	China Aerospace Science and Technology Corporation and its subsidiaries
"Zhongxing Software"	Shenzhen Zhongxing Software Company Limited
"ZTE Kangxun"	Shenzhen ZTE Kangxun Telecom Company Limited
"ZTE Group Finance"	ZTE Group Finance Co., Ltd.

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, as well as 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 (Global System for Mobile Communications) featuring EDGE (Enhanced Data Rates for GSM Evolution) 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	Fourth-generation mobile networks operating according to 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.
5G	Fifth-generation mobile communication, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than what is currently available) and more connections (100 times more than what is currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the Internet of Vehicles.
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 pseudonoise (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.

Glossary

WLAN	Wireless Local Area Network, a local area network in which connection is facilitated using wireless methods. It is generally deployed indoors to cover a distance of about 100 metres. The WLAN standards are promoted primarily by IEEE, which has defined a series of 802.11 standards. WLAN usually uses non-licensed frequency bands such as 2.4GHz or 5GHz. Within the area it covers, WLAN affords higher throughput rate than cellular networks. At present, it is widely used in computers, PAD and smart phones.
SDR platform	Software Defined Radio, a technology by which different modes and protocols are implemented by modifications in software and configuration without hardware replacement. The SDR technology provides solutions to a multi-mode, multi-frequency and scalable wireless system. The SDR platform is a new-generation multi-mode, multi-frequency and scalable wireless technology platform developed by ZTE.
UPP platform	Unified Packet Platform, a future oriented platform for medium- to high-end products developed by ZTE using IP packet as core technology. It supports a wide range of medium-to high-end products in various product lines such as bearer networks and core networks and raises the start-up thresholds of various products through standardisation and shared core components for better R&D efficiency and product competitiveness. It supports two in-depth measurements to satisfy general application requirements of carriers and corporate users.
V4 platform	A new-generation system platform designed and developed by ZTE to meet market demands for new-generation core network products, wireless base station controllers, services and wireline products. Its software is based on a sound framework with high availability of middleware and its hardware has been improved based on ATCA architecture.
ATCA platform	Advanced Telecom Computing Architecture, an advanced telecom computing structure announced by PICMG (PCI Industrial Computer Manufacturers Group) in 2002 to provide a standardised platform system architecture for telecom-grade applications. It is being extensively used in the telecommunications industry.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
Wireless multiple network fusion	The fusion of wireless technologies with different protocols and systems to achieve maximum network operating efficiency and consistency in terminal-users' experience. This includes the fusion of 2G, 3G, LTE and WLAN at the system equipment level and the terminal level.
Cloud Radio	Cloud Radio is an innovative radio solution capable of automatic selection of optimal synchronisation modes based on the properties of the mobile networks and mobile bearer conditions. It can effectively reduce inter-cell interference in LTE networks and significantly boost network performance in the cell edge.
Smart Pipe	Relative to the "dummy pipe," the smart pipe facilitates optimisation of internet traffic flow through technologies such as flow sensor, classification and control, etc to enhance users' experience and deliver added value.
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 realize 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.
Core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
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 required by communications of different types and natures.
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.
PTN	Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while inheriting the traditional strengths of optical transmission, such as availability and reliability, efficient bandwidth management and flow, convenient OAM and network management, scalability and higher security.
OTN	Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN is a “digital transmission system” and “optical transmission system” regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798, purporting to solve the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection.
VoLTE	Voice over LTE, an end to end voice solution built on the LTE network under full IP conditions, enabling more efficient frequency spectrum and better voice quality. It has to be supported by an IMS network.
IPTV	Internet Protocol Television is a type of broadband TV, representing the latest technology that utilises the broadband cable TV network and integrates Internet access, multimedia and communications in one device, providing a variety of interactive services, such as digital TV, to home users.
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.

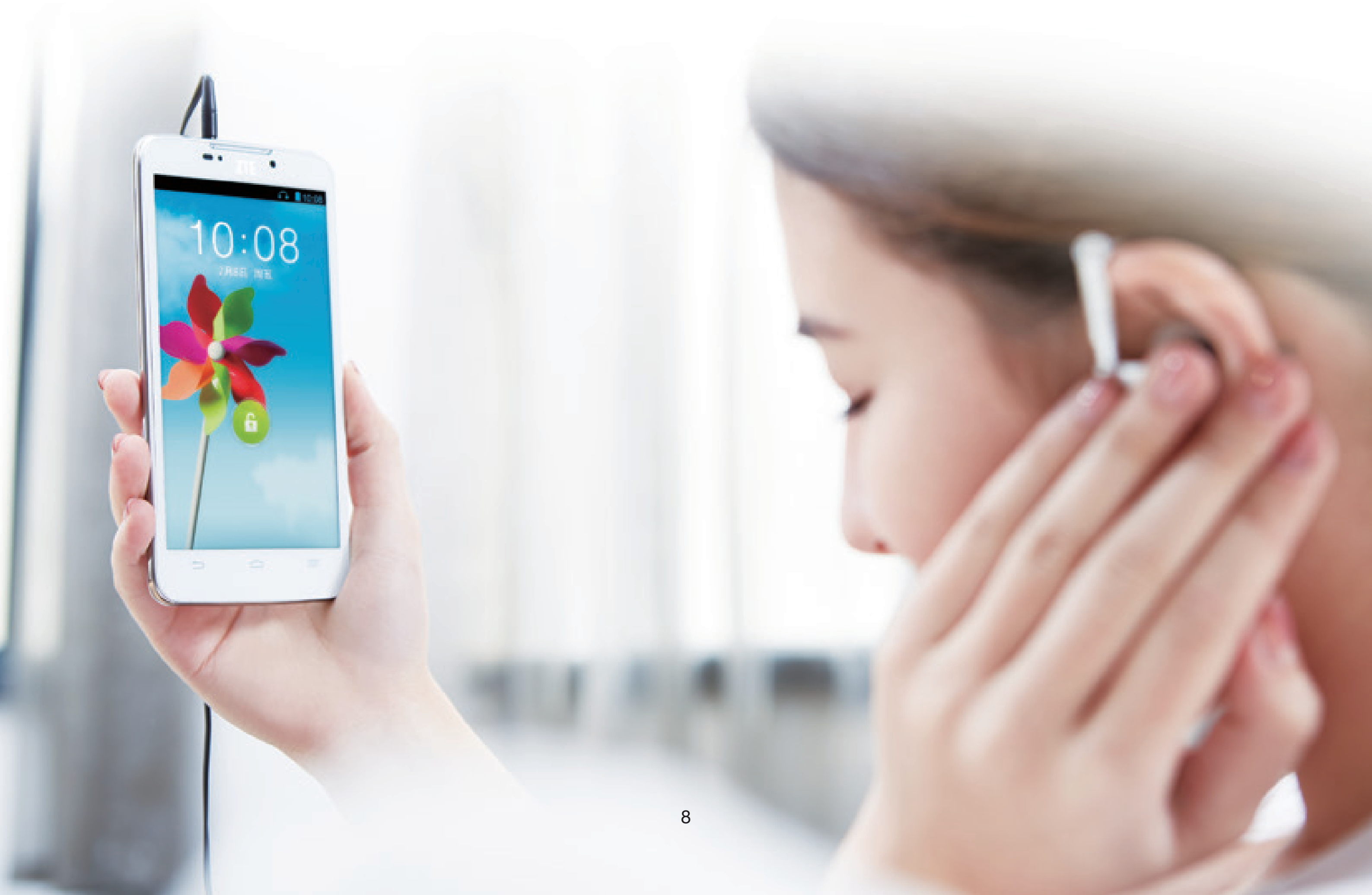
Company Profile

The Company is a leading integrated telecommunications equipment manufacturer in the world market and a provider of global telecommunications solutions, with shares listed on the main board of the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange.

In November 1997, the Company conducted an initial public offering of A shares for listing on the main board of the Shenzhen Stock Exchange. The Company is currently the largest telecommunications equipment manufacturer in China's A share market in terms of operating revenue. In December 2004, the Company conducted an initial public offering of H shares for listing on the Main Board of the Hong Kong Stock Exchange, becoming the first A-share company to be listed on the Main Board of the Hong Kong Stock Exchange.

The Group is dedicated to the design, development, production, distribution and installation of a broad range of advanced telecommunications systems and equipment, including carriers' networks, terminals and telecommunications software systems, services and other products.

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the international telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its various telecommunications products in China with longstanding business ties with China's leading telecommunications service providers such as China Mobile, China Telecom and China Unicom. With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers in more than 160 countries and regions, making contributions to facilitate communications via multiple means, such as voice, data, multi-media, wireless broadband and cable broadband, for users all over the world.



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, the 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, the 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	Authorised representatives	Shi Lirong Feng Jianxiong
6	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, the People's Republic of China

Corporate Information

7	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
8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Room 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building, Beijing, the People's Republic of China
	As to Hong Kong law	Paul Hastings 21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong
10	Auditors	
	PRC	Ernst & Young Hua Ming LLP 21/F, China Resources Building, 5001 Shennan Dong Road, Shenzhen, Guangdong Province, the People's Republic of China Signing Accountants: Li Yuxing, Fu Jie
	Hong Kong	Ernst & Young 22/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong

11 Other relevant information

Initial registration

Date of registration	11 November 1997
Registered address	6/F, Building 710 Lian Tang Pengji Industrial Park Luohu District, Shenzhen, Guangdong Province, the People's Republic of China
Licence registration number	27939873-X
Tax registration	44030327939873X
Entity code (previously "Corporate Legal Person Code")	27939873-X

As at the end of the year

Date of registration	23 October 2013
Registered address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China
Licence registration number	440301103852869
Tax registration	44030127939873X
Entity code	27939873-X

Since the initial public offering of A shares and listing on the main board of the Shenzhen Stock Exchange, there has been no change to the principal business and controlling shareholder of the Company.

Chairman's Statement

DEAR SHAREHOLDERS,

I hereby presents the annual report of the Group for the year ended 31 December 2013, and would like to express, on behalf of the Board of Directors, our sincere gratitude to all shareholders for their concern and support for ZTE.

In 2013, the Group achieved turnaround to profit for the year thanks to strengthened management over contract profitability and enhanced efficiency in cost management. The Group's operating results, business development and prospects are discussed as follows:

OPERATING RESULTS

The Group's operating revenue for 2013 amounted to RMB75.23 billion, representing a year-on-year decline of 10.6%, while net profit attributable to shareholders of the listed company amounted to RMB1.36 billion, representing a year-on-year growth of 147.8%. Basic earnings per share amounted to RMB0.39, improving by 147.0% as compared to the previous year. For 2013, the Group's operating revenue from the domestic market and the international market amounted to RMB35.63 billion and RMB39.60 billion, respectively.

BUSINESS DEVELOPMENT

Growth was sustained in equipment investment by the global telecommunications industry in 2013, albeit at a slow pace. As 2G networks were gradually being phased out, the market was dominated by 3G and 4G networks, with WLAN technologies providing an important complement under the irreversible trend of wireless and broadband access by users. The thriving popularity of the Mobile Internet assured continuous growth in consumers' demand for smart terminals. As national broadband schemes were being proposed in numerous countries across the globe, policy support and government funding should drive the construction of global broadband networks.

In 2013, in connection with the domestic market, the Group worked in close tandem with the network construction plans of carriers to capitalise on opportunities in the domestic market for equipment investment, with a special emphasis on areas with strong carriers' interest, such as flow operation and the Smart City. Regarding the international market, the Group persisted in the strategy of in-depth operation in major populous nations and with mainstream global carriers, underpinned by gradual optimisation of our allocations in key markets. Comprehensive partnerships with mainstream global carriers have been formed as a result.

In 2013, the Group achieved significant progress in the optimisation of market and product allocations by implementing the strategy of "staying focused, enhancing efficiency and seeking innovation."

CORPORATE GOVERNANCE

In 2013, the Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with the requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Hong Kong Listing Rules and relevant domestic and overseas laws and regulations. During the year under review, the Company has formulated its "2013 Internal Control Work Plan" to confirm key tasks and completion plans in internal control for 2013 in accordance with the "Notice on the Publication of Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引

通知》) jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the "Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen" (《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 the "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 the Shenzhen CSRC, and effectively rolled out internal control tasks as planned to enhance the standard of the Company's operations and management and risk aversion ability. In accordance with the latest requirement under the Hong Kong Listing Rules on Board diversity, the Nomination Committee of the Company has formulated a Board Diversity Policy and the Working Rules for the Nomination Committee have been amended accordingly to ensure effective implementation of such policy. Through the aforesaid measures, our corporate governance systems and regimes have been further improved.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility and sustainable development represent important elements of the Group's corporate culture. We constantly update ourselves with the latest notions and standards in social responsibility and seek indepth understanding of the demands of our stakeholders, so as to ensure the incorporation of social responsibility into our corporate strategies and improve our fulfilment of corporate social responsibility on an ongoing basis. The Group has always been committed to the development of innovative information and communication technologies based on research, development and innovation as the core to deliver and enhance value for its customers and partners. We also seek to steer towards a highly efficient development model with low carbon emission by designing and implementing eoc-friendly and energy-saving solutions. It is our hope that, through our services, people in different regions will enjoy freedom in communications on an equal basis. By enabling users around the world to carry out full communication via voice, data, multi-media and wireless broadband, we do play a part contributing to the sustainable development of the economy, society and environment. The Group's efforts in corporate social responsibility has been widely recognised by the government, international organisations and media.

FUTURE PROSPECTS

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

FOCUS OF THE GROUP FOR 2014

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

Hou Weigui
Chairman

Shenzhen, the PRC

27 March 2014

Major Events of the Group

2013

February	2013	ZTE won the GTI Award for integrated solutions in its debut presentation.
March	2013	ZTE remained as the world's largest applicant for patent rights, filing a total of 3,906 international patent applications in 2012.
May	2013	ZXCTN 6500, ZTE's PTN product, was given 1st ranking in overall technology by Frost & Sullivan.
June	2013	ZTE rose to a 2nd ranking in global market share for optical network products.
June	2013	ZTE became the first manufacturer in the industry to complete transmission of 400Gb/s signals over an ultra-long distance of over 5,000 km.
June	2013	ZTE ranked 2nd in global market share for IPTV.
July	2013	ZTE retained 1st ranking in percentage shares for China Telecom's new CDMA collective procurement contracts.
August	2013	ZTE's Cloud Radio was ready for commercial application after obtaining certification for cross-station synchronisation.
September	2013	ZTE was vindicated in two Section 337 patent investigations in the United States, building a "Great Wall" of proprietary rights comprising 50,000 patents.
October	2013	ZTE secured a 60% share of China Mobile's 100G OTN collective procurement project in 2013.
December	2013	ZTE joined forces with CSL to launch the VoLTE Network.

Highlights of accounting and financial indicators

(I) MAJOR ACCOUNTING DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC ASBES

Unit: RMB in millions

Item	Amount for 2013
Operating revenue	75,233.7
Operating profit	(1,493.1)
Total profit	1,827.8
Net profit attributable to shareholders of the listed company	1,357.6
Net profit after extraordinary items attributable to shareholders of the listed company	73.0
Net cash flow from operating activities	2,574.6

Extraordinary items and amounts that have been deducted are as follows:

Unit: RMB in millions

Item	Amount for 2013
Non-operating income	594.2
Gains from fair value change	204.0
Investment gains	857.7
Less: Gains/losses arising from the disposal of non-current assets	18.1
Less: Other non-operating expenses	126.4
Less: Effect of income tax	226.7
Total	**1,284.7**

(II) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST THREE YEARS PREPARED IN ACCORDANCE WITH PRC ASBES

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

✓ Yes ☐ No

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

Highlights of accounting and financial indicators

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

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

Highlights of accounting and financial indicators

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

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

Unit: RMB in millions

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

(III) MAJOR FINANCIAL INFORMATION OF THE GROUP FOR THE PAST FIVE YEARS PREPARED IN ACCORDANCE WITH HKFRSs

Unit: RMB in millions

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

Unit: RMB in millions

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

(IV) MAJOR FINANCIAL INDICATORS OF THE GROUP FOR THE PAST FIVE YEARS PREPARED IN ACCORDANCE WITH HKFRSs

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

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

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

(V) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2013 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs

Report of the Board of Directors

The Board of Directors hereby presents its audited operating results report together with the financial statements of the Group for the year ended 31 December 2013.

BUSINESS OF THE GROUP

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced telecommunications systems and equipment, including carriers' networks, terminals, telecommunications software systems, services and other products.

FINANCIAL RESULTS

Please refer to page 151 and page 317 of this report for the results of the Group for the year ended 31 December 2013 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 19–22 of this report are the results and financial position summary of the Group for the three financial years ended 31 December 2013 prepared in accordance with the PRC ASBEs.

Set out on pages 22–23 of this report are the results and financial position of the Group for the five financial years ended 31 December 2013 prepared in accordance with HKFRSs, which have been extracted from the respective financial statements of the Group for each of the five financial years ended 31 December 2009, 2010, 2011, 2012 and 2013 prepared in accordance with HKFRSs.

(I) Business Review for 2013

1. Overview of the domestic telecommunications industry for 2013

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

2. Overview of the global telecommunications industry for 2013

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

3. Operating Results of the Group for 2013

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

1) By market

The domestic market

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

The international market

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

2) By product

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

Report of the Board of Directors

Carriers' networks

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

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

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

Terminals

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

Telecommunications software systems, services and other products

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

(II) Discussion and analysis prepared under PRC ASBEs

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

1. ***Breakdown of indicators by industry, product and region segments for the year as compared to the previous year***

Unit: RMB in millions

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

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

Report of the Board of Directors

(1) Analysis of change in revenue

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

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

(2) Explanatory statement relating to the adjustment of product classification

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

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

Unit: RMB millions

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

Note: Figures of operating revenue and operating costs for 2012 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2013.

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

2. *Indicators for major products accounting for over 10% of the Group's operating revenue or operating profit for the year*

Unit: RMB in millions

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' networks	40,695.7	25,491.8	37.36%
Terminals	21,702.1	18,487.0	14.81%
Telecommunication software systems, services and other products	12,835.9	9,147.1	28.74%

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

Unit: RMB in millions

		2013		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	**42,708.8**	**80.39%**	52,876.3	82.50%	(19.23%)
	Engineering costs	**10,189.5**	**19.18%**	10,283.4	16.04%	(0.91%)
	Total	**52,898.3**	**99.57%**	63,159.7	98.54%	(16.25%)

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

Unit: RMB in millions

Item	2013	2012 (Restated)	Year-on-year increase/ decrease
Selling and distribution expenses	**10,003.9**	11,180.6	(10.52%)
General and administrative expenses	**2,202.3**	2,281.5	(3.47%)
Finance expenses	**2,460.3**	2,230.7	10.29%
Income tax	**394.2**	621.4	(36.56%)Note
Research and development expenses	**7,383.9**	8,829.2	(16.37%)

Note: Mainly attributable to lower concessionary tax rates applicable to certain subsidiaries reporting significant growth in taxable profit and the entitlement of certain subsidiaries to concessionary tax rates applicable to software enterprises with effect from 2013 for the period.

The Group's research and development expenses for 2013 accounted for 32.77% and 9.81%, respectively, of the Group's net assets attributable to shareholders of the listed company and operating revenue.

5. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	2013	2012	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**90,572.1**	95,491.5	(5.15%)
Sub-total of cash outflows from operating activities	**87,997.5**	93,941.5	(6.33%)
Net cash flows from operating activities	**2,574.6**	1,550.0	66.10%[Note1]
Sub-total of cash inflows from investing activities	**2,495.1**	2,411.4	3.47%
Sub-total of cash outflows from investing activities	**4,157.2**	4,014.5	3.55%
Net cash flows from investing activities	**(1,662.1)**	(1,603.1)	3.68%
Sub-total of cash inflows from financing activities	**23,376.8**	45,547.7	(48.68%)[Note 2]
Sub-total of cash outflows from financing activities	**26,058.4**	43,461.8	(40.04%)[Note 3]
Net cash flows from financing activities	**(2,681.6)**	2,085.9	(228.56%)[Note 4]
Net increase in cash and cash equivalents	**(2,541.4)**	1,997.5	(227.23%)[Note 5]

Note 1: Mainly attributable to the decrease in expenses for the period;

Note 2: Mainly attributable to the decrease in cash received from loans;

Note 3: Mainly attributable to the decrease in cash used in debt repayment;

Note 4: Mainly attributable to the decrease in cash received from loans for the period;

Note 5: Mainly attributable to the decrease in net cash flow from financing activities and the decrease in the impact of exchange rate changes on cash.

For an explanation of reasons for the difference between net cash flow from operating activities and net profit of the Group for the year, please refer to Note V.52 "Supplemental Information for the Cash Flow Statement" to the financial statements prepared under PRC ASBEs.

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

(1) There was no substantial change in the principal business and its structure during the year as compared to the previous year.

(2) Changes in the profit mix during the year as compared to the previous year are set out as follows:

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

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

7. Analysis of the Group's assets and liabilities

(1) Change in assets

Unit: RMB in millions

Item	As at 31 December 2013 Amount	As at 31 December 2013 As a percentage of total assets	As at 31 December 2012 Amount	As at 31 December 2012 As a percentage of total assets	Year-on-year increase/ decrease in percentage of total assets (percentage points)
Total assets	**100,079.5**	**100%**	107,446.3	100.00%	—
Cash	**20,903.0**	**20.89%**	24,126.4	22.45%	(1.56)
Trade receivables	**21,393.3**	**21.38%**	22,068.2	20.54%	0.84
Inventory	**12,434.4**	**12.42%**	11,442.4	10.65%	1.77
Investment properties	**1,855.2**	**1.85%**	1,686.2	1.57%	0.28
Long-term equity investments	**478.0**	**0.48%**	455.8	0.42%	0.06
Fixed assets	**7,449.5**	**7.44%**	7,096.6	6.60%	0.84
Construction in progress	**177.4**	**0.18%**	824.4	0.77%	(0.59)

(2) Change in liabilities

Unit: RMB in millions

Item	As at 31 December 2013 Amount	As at 31 December 2013 As a percentage of total assets	As at 31 December 2012 Amount	As at 31 December 2012 As a percentage of total assets	Year-on-year increase/ decrease in percentage of total assets (percentage points)
Short-term loans	**12,589.0**	**12.58%**	17,923.6	16.68%	(4.10)
Long-term loans due within one year	**2,753.9**	**2.75%**	506.3	0.47%	2.28
Long-term loans	**5,385.7**	**5.38%**	990.0	0.92%	4.46

Report of the Board of Directors

(3) Assets and liabilities 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	(9,523)	—	—	—	56,300	—
2. derivative financial assets	61,378	136,718	—	—	19,899	—	217,454
3. Available-for-sale financial assets	38,420	—	169,639	—	163,096	—	364,479
Sub-total of financial assets	144,717	127,195	169,639	—	182,995	56,300	581,933
Investment properties	1,686,158	38,704	—	—	—	—	1,855,246
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	1,830,875	165,899	169,639	—	182,995	56,300	2,437,179
Financial liabilities Note	116,486	38,111	5,784	—	—	—	72,065

Note: Financial liabilities comprise derivative financial liabilities.

There was no material change to the measurement attributes of the principal assets of the Company during the year.

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 current 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.

(4) 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	136,718	—	—	217,454
Including: derivative financial assets	61,378	136,718	—	—	217,454
2. Loans and receivables	46,426,176	—	—	844,716	40,914,462
3. Available-for-sale financial assets	167,257	—	135,051	—	424,918
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	46,654,811	136,718	135,051	844,716	41,556,834
Financial liabilities	14,029,482	38,111	5,784	—	12,514,689

8. Major customers and suppliers

Sales by the Group to its largest customer in 2013 amounted to RMB11,993.7 million, accounting for 15.94% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB28,088.7 million, accounting for 37.34% of the total sales of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders holding 5% or more of the shares of the Company had any interest in any of the five largest customers of the Group. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

Purchases by the Group from its largest supplier in 2013 amounted to RMB2,956.2 million, accounting for 7.63% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB8,601.0 million, accounting for 22.20% of the total purchases of the Group for the year. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

9. Technological innovations

The Group has effectively enhanced its technological progress and core competitiveness by closely monitoring trends in ICT industry and continuously fostering capabilities for the development of relevant technologies and new products, in persistent adherence to the principles of proprietary development and proactive innovation. In 2013, the Group made the following key adjustments to its organisation and operating mechanisms: 1) establishment of CTO to undertake strategic and platform development for better strategic planning at the company level, as well as the commitment of resources to the Blue Sea Project aimed at further exploring new business frontiers; 2) confirmation of carriers, government and enterprise networks and terminals as its three principal business

Report of the Board of Directors

sectors with enhanced vertical integration; 3) elevation of government and enterprise networks to the status of a second-tier business unit of the Company, committing additional resources to ensure a firm grasp of business opportunities; 4) establishment of the terminal business department as an independent operating unit; 5) ongoing enhancement and optimisation of efficient processes for product research and development, etc.

In 2013, the Group further enhanced its capabilities in core technologies as it continued to advance the building of product and technological platforms, which are now capable of supporting the sector of government and enterprise networks in addition to the traditional telecommunications networks. The SDR platform at the access layer has been expanded with further improvements to render strong technical support for LTE. At the convergence and core layers, we continued to make improvements to the UPP platform to enable support for high-end digital communication products. At the control and service layers, the V4 platform and ATCA platform have been expanded to create a unified computing and storage platform integrating IC and CT, with a view to applications in trustworthy computing. To cater to the requirements of developments towards mega data, we conducted planning and research for the development of a mega-data platform, aiming to build mega-data storage, analysis and processing capabilities. Our operating system platforms have been further expanded to support the research and development of terminals and wearable equipment. With the commercial production of China's first 28mm handset chips, the Group's mastery of core handset technologies has taken a further stride. The aforesaid research and development of platforms and technologies has provided core technological platforms for the Group's integrated solutions for multi-network convergence, Cloud Radio, smart pipe, Internet of Things and Cloud Computing, etc. These developments have significantly enhanced the Group's competitiveness in wireless access, bearer network, core network, PON, services and software, government and enterprise networks and terminals.

The Group maintains an annual R&D budget equivalent to approximately 10% of its sales revenue. We currently employ about 26,000 R&D personnel deployed in 18 R&D centres located in China, the United States, Sweden, France and other regions. Following the completion of the "National Key Laboratory for Mobile Network and Mobile Multimedia Technologies" in 2012, the Group moved on to plan for the construction of the Deep Blue Laboratory to undertake the development of the Blue Sea Project and related research of emerging technologies. Elsewhere, the Group continued to build joint innovation centres in association with leading carriers around the world to ensure success in the market through better assessment of market demands and customers' experience.

As at 31 December 2013, the Group had filed applications for the global patents of over 50,000 items and had been granted patents of over 15,000 items. The Group published PCT international patent applications for 2,309 items making it the world's 2nd ranking applicant in this category. With memberships at more than 70 international standardisation organisations and forums, convenorships and presenter roles at major international standardisation organisations taken up by more than 30 experts from the Group, the presentation of over 25,000 research papers in aggregate and editorships and authorships for more than 180 international standards, the Group continued to foster its leading edge in technologies and patents for key products and technologies, with ongoing enhancement in its ability to counter patent risks.

In 2013, the project on "New Technologies for Heterogenuous Wireless Networks under Uneven Information Density," of which the Group was a participating member, received the "Class II National Science and Technology Progress Award."

In 2013, the Group undertook to lead 10 key national technology research projects, including the "new-generation broadband wireless mobile telecommunication network". The Group was also commissioned with the research, development and industrialisation of more than ten projects including the National 863 Project, next-generation internet project of China, electronic development foundation, Internet of Things foundation and Guangdong Technology Programme.

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 telecommunications 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 to undertake key national projects, the National 863 Project, the National 973 Project and NDRC industrialisation projects.

10. Analysis of investment

(1) Equity investments

① Overview

The Group's equity investment in 2013 amounted to approximately RMB478.037 million, representing an increase of 4.89% compared to approximately RMB455.768 million reported for 2012.

For details of the Company's equity investments and of the invested companies, please refer to Note V.11 Investments in jointly-controlled entities and associates and Note V.12 Long-term equity investments of the financial report prepared in accordance with PRC ASBEs.

② Investment in securities

A SECURITIES INVESTMENT BY THE COMPANY AT THE END OF THE YEAR

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	Nominal 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%	–	–	–	1,147.78	Trading financial assets	Initial investment
Convertible bonds [Note]	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	14,844.02	2,510.85	Other non-current assets	Initial investment
Other investment in securities held at the end of the period			–	–	–	–	–	–	–	–	–
Total			16,481.99	N/A	–	N/A	–	14,844.02	3,658.63	–	–
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 nominal value of the investment as at the end of the reporting period was approximately HKD188.8 million, equivalent to approximately RMB148.4 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People's Bank of China on 31 December 2013 (HKD1: RMB0.78623).

B DETAILS OF 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 had disposed of its entire shareholdings in Nationz Technologies. 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 year, ZTE HK held convertible bonds of China All Access in the amount of HKD201.5 million. The convertible bonds held by ZTE HK have been classified as other non-current assets for accounting purposes and interest income arising from the convertible bonds has been included in current profit and loss.

③ Holding of equity interests in other listed companies

A. HOLDING OF EQUITY INTERESTS IN OTHER LISTED COMPANIES BY THE COMPANY AT THE END OF THE YEAR

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	Nominal 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%	240	2.14%	7,300.80	–	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%	29,145.55	678.04	Available-for-sale financial assets	Initial investment
Total			17,072.40	11,400	—	11,440	—	36,446.35	678.04	–	–

Note 1: Figures corresponding to Speed are provided with Zhonghe Chunsheng Fund as the accounting subject.

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 nominal value of the investment as at the end of the year was approximately HKD370.7 million, equivalent to approximately RMB291.5 million based on the median exchange rate for Hong Kong Dollar versus RMB quoted by the People's Bank of China on 31 December 2013 (HKD1: RMB0.78623).

B. HOLDING OF EQUITY INTERESTS IN OTHER LISTED COMPANIES

a. Shareholdings in Speed

As at the end of the year, 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. As at the end of the year, Zhonghe Chunsheng Fund held 2.40 million shares in Speed which was listed on the GEM Board of the Shenzhen Stock Exchange (after the implementation of the 2012 profit distribution and capitalisation of capital reserve plans of Speed), 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 year, ZTE HK 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) and have been unlocked since 16 January 2014.

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 year.**

Report of the Board of Directors

(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 Note 1	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 2 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
HSBC	N/A	No	Interest rate swap	–	2011-12-19	2016-7-8	31,428.00	–	30,484.50	1.4%	–
Standard Chartered Bank	N/A	No	Interest rate swap	–	2011-12-22	2016-7-8	31,428.00	–	30,484.50	1.4%	–
BOC	N/A	No	Foreign exchange forwards	–	2013-5-16	2014-12-23	4,400.00	–	500,142.76	22.2%	3,350.72
BNP PARIBAS	N/A	No	Foreign exchange forwards	–	2013-1-29	2014-12-16	–	–	333,810.82	14.8%	3,850.35
CITIC Bank	N/A	No	Foreign exchange forwards	–	2013-5-23	2014-12-23	–	–	158,747.41	7.0%	4,118.72
Other banks	N/A	No	Foreign exchange forwards	–	2013-5-14	2014-12-5	350,733.00	–	282,019.80	12.5%	1,185.21
Total				**–**	**–**	**–**	**417,989.00**	**–**	**1,335,689.79**	**59.3%**	**12,505.00**

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 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; 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 foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant. 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 RMB125.05 million, comprising gains from fair-value change of RMB155.60 million and recognised investment losses of RMB30.55 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 Non-executive Directors on the Company's derivative investments and risk control	**Independent Non-executive Directors' Opinion:** The Company has 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 have entered 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 have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

Note 1: Derivative investments are classified according to their types and the bankers involved.

Note 2: 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 year, 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 on 8 April 2010.

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 of the Company.

③ Change in the use of issue proceeds

☐ Applicable ✓ N/A

Report of the Board of Directors

(4) Analysis of principal subsidiaries and investee companies

Unit: RMB in millions

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	26,833.6	6,137.3	14,888.6	(221.4)	1,671.7
ZTE HK	Subsidiary	Information technology	General business	HKD995 million	25,240.2	2,255.6	18,756.3	49.3	(142.7)
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Subsidiary	Communications services	Technical services for communications engineering	RMB50 million	3,787.7	670.0	2,988.6	204.9	168.7
ZTEsoft Technology Company Limited	Subsidiary	Manufacturing	Third-party systems work contracting	RMB300 million	3,217.6	1,408.1	1,358.1	253.1	266.4
Shenzhen ZTE Mobile Telecom Company Limited	Subsidiary	Communications and related equipment manufacturing	Manufacturing and sales of communications products	RMB79.166 million	2,451.1	1,078.2	2,775.0	188.5	206.7
Shanghai Zhongxing Telecom Technology Company Limited	Subsidiary	Communications services	Manufacturing and sales of communications products	RMB10 million	599.3	165.7	567.2	38.9	40.5
Xi'an Zhongxingxin New Software Company Limited	Subsidiary	Communications and related equipment manufacturing	Development of communications service software	RMB600 million	4,372.6	924.2	2,440.3	15.0	184.9
ZTE (Hangzhou) Company Limited	Subsidiary	Communications and related equipment manufacturing	Communications and related equipment manufacturing	RMB100 million	440.3	183.0	1,866.1	2.6	2.6
ZTE ICT Company Limited	Subsidiary	Communications and related equipment manufacturing	Design and sales of enterprise management software and hardware products	RMB60 million	836.0	442.8	383.7	7.6	57.7
ZTE Kangxun	Subsidiary	Communications and related equipment manufacturing	Manufacturing of electronic products and accessories	RMB1,755 million	16,427.9	2,228.8	39,849.6	109.8	93.3
ZTE Microelectronics Technology Company Limited	Subsidiary	Communications and related equipment manufacturing	Design, generation and sales of integrated circuits	RMB100 million	681.2	276.5	293.0	62.3	119.5
ZTE Telecom India Private Limited	Subsidiary	Communications	Sales of communications products and technical support	INR2,242,658,600	2,334.7	(944.0)	1,455.9	(311.8)	(289.0)
ZTE Do Brasil LTDA	Subsidiary	Communications	Manufacturing and sales of communications products	BRL6.50 million	1,027.4	(1,451.8)	663.9	(554.0)	(565.9)
PT. ZTE Indonesia	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering installation	USD2.20 million	1,272.5	41.1	733.2	140.1	119.8
ZTE (Thailand) Co., Ltd.	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	THB50 million	1,943.5	38.3	1,354.2	(87.3)	(93.2)
ZTE (Malaysia) Corporation SDN. BHD	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	USD60,000	421.5	(111.6)	324.1	(90.4)	(89.6)

For information of other subsidiaries and principal investee companies, please refer to Note IV.1 "Subsidiaries" and Note V.12. "Long-term equity investments" to the financial report prepared in accordance with PRC ASBEs.

The operating results of ZTE HK, Shenzhen Zhongxing Telecom Technology & Service Company Limited, PT. ZTE Indonesia, ZTE (Thailand) Co., Ltd., ZTE (Malaysia) Corporation SDN. BHD, ZTE ICT Company Limited and ZTE Microelectronics Technology Company Limited for the year recorded change of over 30% as compared to the same period of the previous year, resulting in significant impact on the consolidated results of the Company. Comparing to the same period last year, net profit of ZTE HK decreased by 116.6% mainly as a result of exchange losses; net profit of Shenzhen Zhongxing Telecom Technology & Service Company Limited increased by 603.9% mainly as a result of adjustments to operating strategies and enhanced internal management; net profit of PT. ZTE Indonesia increased by 314.5% mainly as a result of improved operational management; net profit of ZTE (Thailand) Co., Ltd. decreased by 195.2% mainly as a result of exchange losses; net profit of ZTE (Malaysia) Corporation SDN. BHD decreased by 1,017.0% mainly as a result of lower gross profit margin and exchange losses; net profit of ZTE ICT Company Limited decreased by 55.2% mainly as a result of increased cost and expenditure; net profit of ZTE Microelectronics Technology Company Limited increased by 317.9% mainly as a result of the launch of new products and lower research and development costs.

The Group's investment gains for the year amounted to approximately RMB900 million and accounted for over 50% of its net profit. Such investment gains were mainly derived from gains from the disposal of equity interests amounting to RMB867 million.

For details of subsidiaries acquired or disposed of during the year and their effect, please refer to Note IV.2 "Changes in the scope of consolidation" to the financial report prepared under PRC ASBEs.

(5) Significant investments using funds other than issue proceeds

☐ Applicable ✓ N/A

11. Projections on operating results for the three months ending 31 March 2014

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

12. There was no special-purpose entity under the control of the Company, as provided for in the practice note of "ASBEs No. 33 — Combined Financial Statements".

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

☐ Applicable ✓ N/A

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

✓ Applicable ☐ N/A

Report of the Board of Directors

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

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

☐ Applicable ✓ N/A

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

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

The Company and ZTE 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 to dispose of 81% equity interests in ZNV held in aggregate by the Company and ZTE HK. The date of equity interest disposal was 16 January 2013 and ZNV was deconsolidated from the Group as from January 2013.

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

17. Profit distribution or capitalisation of capital reserve

(1) Proposal for profit distribution of 2013

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

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

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, the profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB136,056,000. The Board of Directors of the Company has recommended as follows:

The profit distribution proposal for 2013: Cash dividend of RMB0.3 (before tax) for every 10 shares held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2013.

(2) Formulation, implementation and adjustment of profit distribution policies

No profit distribution or capitalisation of capital reserve was conducted by the Company in respect of 2012. The aforesaid matter was considered and approved at the 2012 Annual General Meeting convened on 30 May 2013. For details please refer to the "Announcement on Resolutions of the 2012 Annual General Meeting" published by the Company on 30 May 2013.

Aggregate profit distribution of the Company in the form of cash in 2011–2013 accounted for 122.04% of the annual average profit available for distribution in the past three years, which was in compliance with Article 234 of the Articles of Association (amended in October 2013) which states that "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 past three years."

Pursuant to the "Resolution on the Amendment of Relevant Clauses of the Articles of Association" considered and approved at the Thirty-ninth Meeting of the Fifth Session of the Board of Directors and the First Extraordinary General Meeting of 2013 of the Company, held on 14 January 2013 and 7 March 2013, respectively, the profit distribution policy of the Company was adjusted. For details, please refer to the section headed "Report of the Board of Directors (II) 16. Profit distribution or capitalisation of capital reserve" in the 2012 Annual Report of the Company.

(3) Profit distribution or capitalisation of capital reserve in the past three years (including the reporting period)

Year	Profit distribution plan or capitalisation of capital reserve plan	Implementation
2013	The profit distribution proposal: Cash dividend of RMB0.3 (before tax) for every 10 shares held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2013	Subject to consideration and approval at the 2013 Annual General Meeting of the Company.
2012	The profit distribution plan: No profit distribution or capitalisation of capital reserve was conducted by the Company:	Considered and approved at the 2012 Annual General Meeting of the Company.
2011	The profit distribution plan: Payment of RMB2 for every 10 shares (before tax) in cash on the basis of 3,430,952,127 shares (being the Company's total share capital of 3,440,078,020 shares as at 31 December 2011 less 9,125,893 restricted shares under the Share Incentive Scheme).	Completed on 18 July 2012.

Report of the Board of Directors

Details of cash dividend distribution of the Company for the past three years (including the reporting period):

Unit: RMB in ten thousands

Year	Cash distribution amount (before tax)	Net profit attributable to shareholders of the listed company in the consolidated statements	Cash distribution as a percentage of net profit attributable to shareholders of the listed company in the consolidated statements	Profit of the year available for distribution
2013	10,312.62	135,765.70	7.60%	13,605.60
2012	—	(284,096.20)	—	(17,820.30)
2011	68,619.04	206,016.60	33.31%	198,242.90
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				122.04%

18. *For details of the Company's fulfillment of corporate social responsibility, please refer to the "2013 Corporate Social Responsibility Report" published on http://www.cninfo.com.cn on 27 March 2014.*

The Company and its staff have been committed to serving the society and the cities and countries where the Company operates. In 2013, the Company strived to build community welfare projects under its brand name by enhancing the integration of its community welfare resources and the development of the "ZTE Community Welfare Foundation" and soliciting influential people in the industry and other philanthropists to joint the community welfare projects of ZTE, in line with its aim to promote the spirit of "community welfare, fulfill social responsibility and advance community welfare development". By standardising relevant rules and regulations, improving organisational structures and increasing the transparency of operations, we have started a number of community welfare projects in aid for the underprivileged, disaster relief, environmental protection and incentives for technological development. For details of our social welfare activities (including donations), please refer to the "2013 Corporate Social Responsibility Report" published by the Company on http://www.cninfo.com.cn on 27 March 2014.

19. *Reception of analysts, communications and press interviews during the year*

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	Hong Kong	January 2013	Credit Suisse Securities investors' meeting	Customers of Credit Suisse Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	January 2013	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2013	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2013	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	May 2013	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	May 2013	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2013	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2013	China Merchant Securities investors' meeting	Customers of China Merchant Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hubei	June 2013	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Xiamen	June 2013	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Guilin	July 2013	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	August 2013	Qilu Securities investors' meeting	Customers of Qilu Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	August 2013	Minsheng Securities investors' meeting	Customers of Minsheng Securities	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
	Shanghai	August 2013	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2013	CIMB Securities investors' meeting	Customers of CIMB Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	September 2013	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	September 2013	CITIC Securities International investors' meeting	Customers of CITIC Securities International	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	November 2013	Merrill Lynch Securities investors' meeting	Customers of Merrill Lynch Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Macau	November 2013	Citibank investors' meeting	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	November 2013	JPMorgan Chase investors' meeting	Customers of JPMorgan Chase	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	November 2013	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	November 2013	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	November 2013	Qilu Securities investors' meeting	Customers of Qilu Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2013	China Merchant Securities investors' meeting	Customers of China Merchant Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Sanya	December 2013	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	December 2013	China Galaxy Securities investors' meeting	Customers of China Galaxy Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	December 2013	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	December 2013	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	December 2013	Minsheng Securities investors' meeting	Customers of Minsheng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	December 2013	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
Presentation of the Company	Hong Kong	March 2013	Results presentation	Analysts and investors	2012 Annual Report	Published announcements and regular reports
				Overseas investors		
Company visits by investors	Company	January to December 2013	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 Jun'an (Hong Kong), Resona Bank, Value Partner, Keywise Capital, China Merchant Securities (Hong Kong), Shennong Capital Management, 萬利富投資, Pangea Capital Management, Da Cheng International Asset Management, Prudence Investment, Vision Finance Asset Management, Harris Associates, Credit Suisse, Alliancebernstein, Brookside Capital, ISI Group, Fidelity, Neuberger Berman, Discovery Capital, WHV Capital, 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, RAYS Capital Partners Limited, RBC Wealth Management, SWS Asset Management (Asia) Ltd, Uni-President Assets Management Corporation, Neuberger Berman, Discovery Capital, WHV Capital, Mizuho Securities, Morgan Stanley, SRS Investment Management, Light Street Capital, Global Situations Investment, Soros Fund Management LLC, Balyasny Asset Management, Putnam Investments, Schroders Investment Management, Samsung Asset Management, CLSA, PFM, Sands Capital, Cavalry Asset Management, Carnegie Asset Management, DIAM Asset Management, Cheetah Investment Management, KGI Securities, Fubon Asset Management, Yuanta Securities Investment Trust, Hontai Life Insurance, Daiwa Securities, Alkeon Capital Management, Blackrock, Daiwa SB Investments, Matthews International, Nippon Life Global Singapore, City National Rochdale Investment, Zeal Asset Management	Day-to-day operations of the Company	Published announcements and regular reports

Report of the Board of Directors

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
				Domestic investors		
Company visits by investors	Company	January to December 2013	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 Jun'an, 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, Southwest Securities, China Securities, Toronto-Dominion Bank, New Vision Asset Management, Goldstate Securities, China Southern Asset Management, Minmetals Capital	Day-to-day operations of the Company	Published announcements and regular reports

(III) Business outlook for 2014 and risk exposures

1. Business outlook for 2014

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

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

2. Risk Exposures

(1) Country risk

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risk

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

(4) Interest rate risk

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

(5) Credit risk

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

(IV) Other Matters in the Report of the Board of Directors

1. Fixed assets

Details of changes in fixed assets of the Company and the Group for the year are set out in Note 15 to the financial statements prepared in accordance with HKFRSs.

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in Note 34 to the financial statements prepared in accordance with HKFRSs.

3. Reserves

Details of the reserves and changes in the reserves of the Company and the Group for the year are set out in Note 43 to the financial statements prepared in accordance with HKFRSs.

4. Pre-emptive rights

There is no provision under the Company Law or the Articles of Association regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

Report of the Board of Directors

5. Share capital

Details of the share capital of the Company, together with the changes in the share capital and the reasons therefor, are set out in Note 41 to the financial statements prepared in accordance with HKFRSs and the section headed "Changes in shareholdings and information of shareholders (I) Changes in share capital during the year" in this report.

6. Competing interest

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

7. List of Directors

The list of Directors of the Company is set out in the section headed "Directors, Supervisors, Senior Management and Employees — (II) Changes in the Shareholdings of the Company's Directors, Supervisors, Senior Management and Annual Remuneration" in this report.

8. Taxation

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

Management Discussion and Analysis

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

Unit: RMB in millions

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

REVENUE ANALYSIS BY PRODUCT AND GEOGRAPHIC REGION

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

OTHER INCOME AND GAINS

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

RESEARCH AND DEVELOPMENT COSTS

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

SELLING AND DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2013 increased to RMB3,443.7 million, as compared to RMB-142.8 million for 2012, while the operating profit margin increased from -0.2% for 2012 to 4.6% for 2013, primarily as a result of higher overall gross profit margin and gross profit of the Group and the decrease in total expenses for the period.

FINANCE COSTS

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

INCOME TAX EXPENSE

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

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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

OTHER COMPREHENSIVE INCOME

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

CAPITAL MANAGEMENT POLICY

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

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

CASH FLOW DATA

Unit: RMB in millions

	2013	2012
Net cash inflow from operating activities	**446.9**	1,873.1
Net cash outflow from investing activities	**(1,171.0)**	(4,376.8)
Net cash inflow (outflow) from financing activities	**(1,045.1)**	4,536.6
Net increase (decrease) in cash and cash equivalents	**(1,769.2)**	2,032.9
Cash and cash equivalents at year-end	**20,118.3**	22,659.6

OPERATING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCING ACTIVITIES

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

CAPITAL EXPENDITURE

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

Unit: RMB in millions

Capital expenditure	**2013**	2012
Purchases of fixed assets and increase of construction in progress payments	**904.1**	1,257.6

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

INDEBTEDNESS

Unit: RMB in millions

Item	31 December 2013	2012
Secured bank loans	**890.3**	1,805.0
Unsecured bank loans	**19,838.3**	17,614.9

Unit: RMB in millions

Item	31 December 2013	2012
Short-term bank loans	**15,343.0**	18,429.9
Long-term bank loans	**5,385.6**	990.0

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

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

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

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

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

CONTINGENT LIABILITIES

Unit: RMB in millions

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

CAPITAL COMMITMENTS

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

Unit: RMB in millions

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

DETAILS OF THE SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES OF THE GROUP

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

MATERIAL ACQUISITIONS AND DISPOSALS RELATED TO SUBSIDIARIES AND ASSOCIATES

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

PROSPECTS FOR NEW BUSINESS

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

EMPLOYEES

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

CHARGES ON ASSETS

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

PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

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

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

MARKET RISKS

For details of the Group’s exposure to market risks, please refer to the section headed “Report of the Board of Directors — (III) Business outlook for 2014 and risk exposures” in this report.

Material Matters

(I) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material Litigation and Arbitration

During the year, the Group did not incur any material litigation or arbitration. Progress during the year of immaterial litigation and arbitration proceedings incurred prior to the year and other litigation and arbitration proceedings incurred during the year are set out as follows:

(1) In August 2005, an Indian consultant firm instituted an overseas arbitration to claim indemnity against the Company 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 restoring its corporate status. 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 aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(2) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB44,252,800). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB19,026,300) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, 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) 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 of Shenzhen, 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 million and damages of RMB11.319 million 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 million 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 lawsuit at the Intermediate Court.

In October and November 2009, the Company further instituted two lawsuits with the Nanshan District People's Court of Shenzhen, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30.615 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate People's Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million 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 million 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 RMB20.15 million 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 the legal counsel engaged by the Company and the progress of the cases, the aforesaid cases will not have any material adverse impact on the financial conditions and operating results of the Group.

(4) 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, which otherwise should have been secured, 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, an attorney has been appointed by the Company 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 with the Company an agreement which was then 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 legal counsels engaged by the Company and the progress of the case, 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) 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 had 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." Huawei has complied with the aforesaid judgement and made an indemnity of EUR100,000 to the Company and ZTE France.

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 will 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 district 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 appealed to the Court of Appeal on 22 April 2013 and applied for the appeal case to the terminated on 3 May 2013. As of now, 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 was of the view 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

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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 had ruled to suspend trial in respect of all of the 4 patents under litigation.

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 legal counsels engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(6) 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 works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. The legal counsel engaged by the Company has submitted a defense in a timely manner to deny all allegations made by the carrier.

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

(7) 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 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337.

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 aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(8) On 9 December 2011, the Company and ZTE USA received a petition for arbitration filed by four USA companies and a natural person (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.

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 12 February 2014, ICDR issued a final ruling that rejected all claims of CLEARTALK and ruled that the Company and ZTE USA were not required to pay any amounts to CLEARTALK. It also ruled against support of the counter-claims of the Company and ZTE USA.

Based on the progress of the case, 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) 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 RMB194 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. On 13 January 2014, the tax bureau of Sao Paulo State resolved to rescind the aforesaid administrative penalty notice with effect from 1 June 2014 pursuant to Order No. 56045/2010 and Administrative Regulation No. CAT154/2010.

Material Matters

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 RMB250 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. On 18 September 2013, ZTE Brazil received the judgement 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 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

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

(10) In May 2012, Flashpoint Technology, Inc., a U.S. company, 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 patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents involved and had not violated Section 337.

Based on the legal opinion furnished by legal counsels engaged by the Company and the current progress of the case, 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) In July 2012, Technology Properties Limited LLC, 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 patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the

patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents involved and had not violated Section 337.

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

(12) 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 RMB81,400,500). 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 RMB215 million). The Company has appointed an independent legal counsel to conduct active defense in respect of the said case.

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

(13) In October 2013 and December 2013, Pragmatus Mobile, 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 maps and wifi-related patents. Defendants in the case included other companies in the industry. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. The Company has appointed an independent legal counsel to conduct active defense 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 progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2013, where PKR amounts are translated at the exchange rate of PKR1:RMB0.0580 and BRL amounts are translated at the exchange rate of BRL1:RMB2.5962.

2. General Media Queries

☐ Applicable √ N/A

Material Matters

(II) APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS BY CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES

1. **There was no appropriation and repayment of non-operating funds of the Company by the controlling shareholder and its connected parties during the year.**

2. **Statement on fund appropriation issued by Ernst & Young Hua Ming LLP**

The "Statement on Amounts Receivable from the Controlling Shareholder and Other Connected Parties by ZTE Corporation" issued by Ernst & Young Hua Ming LLP was set out in an announcement published by the Company on 27 March 2014 on the website designated for information disclosure.

(III) THE GROUP WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE YEAR

(IV) ASSET TRANSACTIONS

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

1. **Disposal of assets**

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of disposal	Transaction price	Gain/ loss from disposal for the year	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	62.80%	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 26 March 2014.

Note 3: Total net profit refers to 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 resulted in an investment gain for the Company in the range of RMB820 million to RMB880 million in 2013, which provided 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 Interest in Shenzhen ZNV Technology Co., Ltd." published by the Company on 28 December 2012.

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 recognized by the Company during the year.

(V) 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 has completed formalities for the repurchase, transfer and cancellation of the aforesaid 2,536,742 restricted shares with China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. For details, please refer to the "Announcement of Completion of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking" published by the Company on 3 September 2013. The Company has completed the relevant procedures of changes in industrial and commercial registration as required by the law. For details, please refer to the "Announcement of Completion of Changes in Industrial and Commercial Registration" published by the Company on 24 October 2013.

Material Matters

(VI) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME (THE "SCHEME")

1. Summary of the Scheme

(1) Objective

The Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibilities of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets.

(2) Scheme participants and their adjustments

Scheme participants of the Scheme include Directors, senior management personnel and key employees who have a direct impact on, or have made outstanding contributions to, the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

Pursuant to the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" ("Share Option Incentive Scheme (Revised Draft)") considered and passed at the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company, it was resolved that a total of 103,200,000 share options shall be granted to the Directors, senior management and key business personnel of the Company.

Prior to the grant of share options under the Scheme of the Company, scheme participants Hua Rusong and Chi Xun had left the Company, while scheme participant Hua Jianbin had deceased. Pursuant to the Share Option Incentive Scheme (Revised Draft), pertinent laws and regulations and the approval granted by the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the 3 persons aforesaid were removed from the list of qualified participants of the Scheme and a total of 211,000 share options were cancelled. As a result, the number of scheme participants was adjusted from 1,531 to 1,528 and the number of share options to be granted under the Scheme was adjusted from 103,200,000 to 102,989,000.

(3) Number of underlying shares and maximum share options that may be granted to scheme participants

Each share option granted shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price and subject to the conditions of exercise. The source of shares under the Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. The total number of underlying A shares in respect of the share options to be granted under the Scheme is 102,989,000 A shares, accounting for approximately 3% of the Company's total share capital currently in issue and approximately 3.7% of its A shares currently in issue.

Unless approved by the shareholders in a general meeting, the aggregate number of A shares to be issued to a scheme participant upon exercise of his share options under the Scheme or other effective share option incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

(4) Date of grant, validity period, vesting period, exercise period and exercisable percentage

The Scheme shall remain in force for 5 years from the date of grant (i.e. 31 October 2013). Subject to the fulfillment of the exercise conditions, share options granted under the Scheme can be exercised by the following proportion after the expiry of the 2-year vesting period from the date of grant:

Exercise period	Duration	Exercisable share options as a percentage of the total number of share options granted
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	30%
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	30%
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	40%

(5) Exercise price and basis of determination

The exercise price of the share options shall be RMB13.69 per A share. Upon fulfilment of exercise conditions, each share option granted to the scheme participant entitles the scheme participant to acquire one A Share of the Company at RMB13.69 per A share.

The above exercise price is the higher of the following:

(i) closing price of the A Shares quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date on which the Scheme was announced (i.e. 12 July 2013), which was RMB13.69 per A share; and

(ii) the average closing price of the A Shares quoted on the Shenzhen Stock Exchange for the last 30 trading days immediately preceding the date on which the Scheme was announced, which was RMB12.61 per A share.

During the validity period of the Scheme, in the event of any dividend distribution, capitalisation issue, bonus issue, sub-division or rights issue or consolidation of shares in relation to the A shares of the Company before the exercise of the share options, an adjustment to the exercise price shall be made accordingly.

(6) Approval procedures fulfilled

The Scheme implemented by the Company has been approved by regulatory authorities including SASAC, CSRC and Hong Kong Stock Exchange and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. For details, please refer to the “Announcement of Matters relating to the Grant of Share Options” published by the Company on 31 October 2013.

Material Matters

2. Share options granted to scheme participants during the year and the exercise thereof

A total of 102,989,000 share options were granted during the year, the details of which are set out in the following table:

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercised during the reporting period	Number of outstanding options at the end of the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period
Zhang Jianheng	Director	0	30,000	0	30,000	0	0
Xie Weiliang	Director	0	30,000	0	30,000	0	0
Wang Zhanchen	Director	0	30,000	0	30,000	0	0
Zhang Junchao	Director	0	30,000	0	30,000	0	0
Dong Lianbo	Director	0	30,000	0	30,000	0	0
Tian Wenguo	Executive Vice President	0	200,000	0	200,000	0	0
Qiu Weizhao	Executive Vice President	0	500,000	0	500,000	0	0
Fan Qingfeng	Executive Vice President	0	500,000	0	500,000	0	0
Zhao Xianming	Senior Vice President	0	500,000	0	500,000	0	0
Pang Shengqing	Senior Vice President	0	450,000	0	450,000	0	0
Zeng Xuezhong	Senior Vice President	0	450,000	0	450,000	0	0
Xu Huijun	Senior Vice President	0	350,000	0	350,000	0	0
Ye Weimin	Senior Vice President	0	400,000	0	400,000	0	0
Zhu Jinyun	Senior Vice President	0	450,000	0	450,000	0	0
Zhang Renjun	Senior Vice President	0	350,000	0	350,000	0	0
Chen Jianzhou	Senior Vice President	0	450,000	0	450,000	0	0
Cheng Lixin	Senior Vice President	0	200,000	0	200,000	0	0
Feng Jianxiong	Board Secretary	0	400,000	0	400,000	0	0
Other Participants	1,510 persons	0	97,639,000	0	97,639,000	0	0
Total	1,528 persons	0	102,989,000	0	102,989,000	0	0

For details of the date of grant, validity period, vesting period, exercise period and exercise price under the Scheme in respect of the share options set out in the table above, please refer to the section headed "Summary of the Scheme" above.

3. Valuation and accounting policies relating to the share options

The Company has adopted the Binomial Tree model to calculate the value of the share options. The date of grant (31 October 2013) has been adopted as the measurement date and the estimated value of the share options is RMB5.36 per A share, representing 35.31% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Exercise price	RMB13.69 per A share
Market price	RMB15.18 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the third year, the fourth year and the fifth year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of the Company's A share used for the first, second and third exercise period being 40.25%, 39.69% and 43.18% respectively.
Expected dividend (Note 1)	RMB0.18 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first, second and third exercise period being 3.34%, 3.40% and 3.46% respectively.
Value of share options per A share	RMB5.36

Note 1. The expected dividend was calculated based on the historical dividends of the Company.

Note 2. The Company adopted the three-year, four-year and five-year national bond yield rates as quoted by Reuters as at the date of grant as the risk-free interest rates for the first, second and third exercise period, respectively.

Note 3. The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimate value of the share options may be subjective and subject to uncertainties.

The cost of the share options will be charged to operating profit or loss. The accounting policies relating to the share options and their impact on the financial position and operating results of the Company have been set out in Note VII "Share-based Payment" to the financial statements prepared in accordance with PRC ASBEs and Note 42 to the financial statements prepared in accordance with HKFRSs.

For details of the Scheme, please refer to "Overseas Regulatory Announcement" published by the Company on 26 August 2013.

(VII) INFORMATION ON 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.

(VIII) 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, Securities Law, 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 General 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 of 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 31 December 2013, there were 274 holders of Bonds cum Warrants 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	5,450,000	9.08%
5	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	1,800,000	3.00%
6	Agricultural Bank of China Limited	1,375,190	2.29%
7	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Fund	1,078,560	1.80%
8	Sha Dinan	1,026,316	1.71%
9	NSSF 409 Portfolio	1,000,000	1.67%
10	ICBC (Asia) Investment Management Company Limited — Clients' Funds (Exchange)	600,000	1.00%

(IX) WAIVER OF RIGHTS BY THE COMPANY

1. Waiver of first right of refusal in respect of share subscription and capital contribution of ZTE South Africa

To meet the needs of its business development and to comply with relevant requirements of overseas laws, ZTE Corporation South Africa (Proprietary) Limited ("ZTE South Africa"), a wholly-owned subsidiary of ZTE HK which, in turn, is a wholly-owned subsidiary of the Company, has proposed to increase its share capital and introduce new shareholders. In connection with the proposed share capital increase of ZTE South Africa, ZTE HK has waived the first right of refusal to share subscription and capital contribution in respect of the share capital increase. For details, please refer to the "Announcement of Waiver of Rights" published by the Company on 12 September 2013.

The aforesaid matter was considered and passed at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company. As ZTE South Africa had reported a compound annual growth rate of 169.72%, namely in excess of 20%, in its revenue from principal operations for the past three years, the matter was required to be and had been considered and passed at the Third Extraordinary General Meeting of 2013 of the Company in accordance with the "Information Disclosure Memorandum No. 35 — Waiver of Rights" (信息披露業務備忘錄第35號 — 放棄權利) issued by the Shenzhen Stock Exchange. For details, please refer to the "Announcement of Resolutions of the Ninth Meeting of the Sixth Session of the Board of Directors" and "Announcement of Resolutions of the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013" published by the Company on 12 September 2013 and 15 October 2013, respectively.

2. Waiver of first right of refusal in respect of share subscription and capital contribution of ZTE ITS Ltd.

To meet the needs of its business development, ZTE ITS Ltd ("ZTE ITS"), an investee of the Company has increased its share capital. In connection with the share capital increase of ZTE ITS, the Company has waived the first right of refusal to share subscription and capital contribution in respect of the share capital increase. For details, please refer to the "Overseas Regulatory Announcement" published by the Company on 27 December 2013.

The aforesaid matter was considered and passed at the Thirteenth Meeting of the Sixth Session of the Board of Directors of the Company. For details, please refer to the "Announcement of Resolutions of the Thirteenth Meeting of the Sixth Session of the Board of Directors" published by the Company on 27 December 2013.

(X) 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 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.

(XI) SIGNIFICANT CONNECTED TRANSACTIONS

1. 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 continuing connected transactions in 2013 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. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third 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 and 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.	49,391.0	1.25%	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.	42,686.5	1.08%	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"

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
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.	3,731.8	0.09%	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.	906.6	0.02%	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	3,720.2	0.09%	Tele-transfer	N/A	27 June 2012 27 April 2013	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange" Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
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)	4,422.1	7.76%	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"

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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
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.	840.5	1.47%	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.	4,169.1	14.70%	Tele-transfer	N/A	27 June 2012 27 April 2013	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange" Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–	–	**109,867.8**	**N/A**	–	–	–	–

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
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; at the Second Meeting of the Sixth Session of the Board of Directors held on 26 April 2013, 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 2013 and ending on 30 June 2014; 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 RMB48 million for the period commencing on 1 July 2013 and end on 30 June 2014; 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 year.

(3) The Company did not conduct any material connected transaction involving joint investment in third parties during the year

(4) Creditors and debtors with connected parties

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

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(5) Other material connected transactions

At the Fourteenth Meeting of the Sixth Session of the Board of Directors held on 20 January 2014, the following continuing connected transaction was considered and passed:

① The aggregate amount of transactions for the purchase of software outsourcing services by the Company from connected party Huatong in 2014 shall be capped at RMB82 million (before VAT);

② The aggregate amount of transactions for the purchase of software outsourcing services by the Company from connected party Nanchang Software in 2014 shall be capped at RMB18 million (before VAT);

③ The aggregate amount of continuing connected transactions for the sales of digital communications products and telecommunications products by the Company to connected party 深圳市航天歐華科技發展有限責任公司 in 2014 shall be capped at RMB600 million (before VAT).

For details please refer to the "Overseas Regulatory Announcement" published by the Company on 20 January 2014.

2. Continuing connected transactions under the Hong Kong Listing Rules

In accordance with Chapter 14A of the Hong Kong Listing Rules, the following connected transactions are required to be disclosed in this report. Details of related parties under HKFRSs are set out in Note 51 to the financial statements prepared under HKFRSs. Save as disclosed herein below, there were no other connected transactions which should be deemed as "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Hong Kong Listing Rules and disclosed in accordance with the requirements of Chapter 14A of the Hong Kong Listing Rules.

The Group has entered into connected transaction framework agreements with the following connected parties, and has fulfilled the statutory procedures of reporting and announcement under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of each connected transaction. For details, please refer to the "Announcement on Continuing Connected Transactions — Purchase of Raw Materials from Zhongxingxin" published on 28 December 2012. The Company hereby confirms that the disclosures requirements under Chapter 14A of the Hong Kong Listing Rules have been complied with.

(1) Purchases of raw materials comprising primarily cabinets and accessories, cases and accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components by the Company from Zhongxingxin and its subsidiaries

- *Description of the connected relationship between the parties to the transaction:*

Zhongxingxin is the largest shareholder of the Company. As controlling shareholder of the Company, Zhongxingxin is a connected person of the Company under the Hong Kong Listing Rules. As associates of Zhongxingxin, the subsidiaries of Zhongxingxin are connected persons of the Company under the Hong Kong Listing Rules.

- *Total transaction amount in 2013:*

Approximately RMB493,910,000

- *Price and other terms:*

At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, the "Zhongxingxin Purchase Framework Agreement" between the Group and Zhongxingxin dated 28 December 2012 in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries effective from 1 January 2013 to 31 December 2015 with the purchase amounts for 2013-2015 capped at RMB900 million, RMB1,000 million and RMB1,100 million (before VAT) respectively was approved.

A potential supplier must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become an approved supplier of the Group. Zhongxingxin and its subsidiaries were selected through the Group's qualification and bidding procedures as described above. The Directors confirm that the prices of the said purchases were determined on an arm's length basis and on normal commercial terms. Prices at which transactions under the Zhongxingxin Purchase Framework Agreement are conducted will be determined on an arm's length basis. Such prices shall be on terms no less favourable than those offered to the Group by other parties. The Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the products.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin and its subsidiaries from time to time, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as other contract details. The annual cap for purchase in 2013 was estimated at RMB900 million (before VAT).

- *Purpose of the transaction:*

Zhongxingxin and its subsidiaries were selected as suppliers through the Group's qualification and bidding procedures as they have consistently been able to meet the Group's stringent demands for fast product turnaround time, high product quality and timely delivery. As the Group consider that having reliable and cooperative suppliers is important and beneficial to us, purchasing components required for the Group's products from Zhongxingxin and its subsidiaries allows us to secure essential control over the supply of most of the raw materials of our production by being able to ensure the quality and timely delivery of such raw materials.

(2) The Independent Non-executive Directors of the Company have reviewed each of the aforesaid connected transactions of the Group and confirmed that the transactions were:

- conducted in the ordinary and usual course of business of the Company;
- entered into on normal commercial terms; and
- conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(3) The auditors of the Company have examined the aforesaid connected transactions and confirmed to the Board of Directors of the Company that the connected transactions were:

- approved by the Board of Directors of the Company;
- conducted in accordance with the pricing policies of the Company (where goods or services are being supplied or rendered by the Company);

- conducted in accordance with the terms of the agreements governing them; and
- within the relevant annual caps as disclosed by announcements.

(XII) 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 year.

2. Third-party guarantees of the Group

(1) Progress of third-party guarantees incurred prior to the year

Performance of guarantee obligation in respect of Benin Telecoms

Following approval at the Sixth Meeting of the Fourth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting of 2007 of the Company held on 22 July 2007 and 16 October 2007, respectively, the Company has provided a guarantee for ZTE HK, a wholly-owned subsidiary of the Company, in respect of a US$3 million banking facility. To facilitate its business development, ZTE HK has applied to Societe Generale (Hong Kong Branch) for a standby letter of credit, under the aforesaid banking facility, in favour of the lending bank which has extended loans for a project of Benin Telecoms S.A. ("Benin Telecoms") (undertaken by ZTE HK as contractor) as guarantee for a 30% partial repayment of the 15% upfront loan for the said project of Benin Telecoms. The amount of guarantee shall be no more than US$3 million.

In August 2013, ZTE HK received an electronic message from Societe Generale (Hong Kong Branch), notifying that ZTE HK was required to make a payment of USD2,803,925.46 to Societe Generale (Hong Kong Branch) in compensation, as Societe Generale (Hong Kong Branch) was required to perform its guarantee obligations under the aforesaid standby letter of credit as a result of the failure of Benin Telecoms, the guaranteed party, to honour repayments as scheduled. ZTE HK has made the payment in compensation in August 2013, after which the guarantee obligations of the Company and ZTE HK have been released. ZTE HK will demand retrospective compensation from Benin Telecoms and the Ministry of Finance of Benin to minimise its losses. In the judgement of the Company, the compensation will not have any material adverse impact on the financial conditions and operating results of the Company for the current period.

For details of the aforesaid matter, please refer to the "Announcement Performance of guarantee obligation in respect of Benin Telecoms S.A." published by the Company on 21 August 2013.

(2) New third-party guarantees entered into during the year

A Provision of third-party guarantee for ZTE Indonesia

ZTE provided joint-liability guarantee ("Guarantee by Assurance") in respect of the performance obligations of PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary of ZTE, under the Equipment Purchase Contract and the Technical Support Contract for an amount not exceeding US$40 million, with a term commencing on the date on which the Guarantee by Assurance Agreement takes effect upon execution and ending on the date on which the performance of ZTE Indonesia's material obligations under the Equipment Purchase Contract and the Technical Support Contract are completed. At the same time, ZTE has applied to the relevant bank for the issuance of a letter of bank guarantee, under the composite credit facility considered and passed by the Board of Directors, to provide guarantee with a maximum accumulated amount of US$15 million in respect of the performance obligations of ZTE Indonesia under the Equipment Purchase Contract and Technical Support Contract ("Guarantee Letter").

The term of guarantee shall commence on the date on which the Guarantee Letter takes effect and ending on 5 March 2017 or the date on which the performance obligations of ZTE Indonesia under the Equipment Purchase Contract and Technical Support Contract are fully completed, whichever is later. For details, please refer to the "Announcement on Third-party Guarantee" published by the Company on 12 September 2013.

The aforesaid matter was considered and passed at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company. As ZTE Indonesia had a gearing ratio of over 70%, the matter was required to be and had been considered and passed at the Third Extraordinary General Meeting of 2013 of the Company. For details, please refer to the "Announcement of Resolutions of the Ninth Meeting of the Sixth Session of the Board of Directors" and "Announcement of Resolutions of the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013" published by the Company on 12 September 2013 and 15 October 2013, respectively.

B Provision of third-party guarantee for Zena

To facilitate its participation in the tender, the Company provided a Letter of Guarantee for Tender with an amount of 0.82 million KWD for Zena Technologies & Telecommunication Systems Co. WLL ("Zena") in respect of the bidding and evaluation process of the Phase II GPON Project of the Ministry of Communications of Kuwait, for a term commencing on the date of submission of the tender for the Phase II GPON Project of the Ministry of Communications of Kuwait and ending on the date of announcement of the tender award for the project. For details, please refer to the "Announcement on Third-party Guarantee" published by the Company on 17 December 2013.

The aforesaid matter was considered and passed at the Twelfth Meeting of the Sixth Session of the Board of Directors of the Company. For details, please refer to the "Announcement of Resolutions of the Twelfth Meeting of the Sixth Session of the Board of Directors" published by the Company on 17 December 2013.

(3) Third-party guarantees as at the end of the year

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	Yes	No
Zena Technologies & Telecommunication Systems Co. WLL[Note 2]	18 December 2013 201375	KWD0.82 million	N/A	–	Guarantee by pledge	Commencing on the date of submission of the tender for the Phase II GPON Project of the Ministry of Communications of Kuwait and ending on the date of announcement of the tender award for the project.	No	No
Total amount of third-party guarantee approved during the reporting period (A1)		RMB17,746,200		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)		RMB67,746,200		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)			RMB50 million	

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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	Assurance	6.6 years	Yes	No
Closed Joint-Stock Company CJSC TK Mobile [Note 3]	12 May 2009 200917	USD70.60 million	N/A	–	Pledge of equity	–	No	No
PT. ZTE Indonesia [Note 3]	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 3]	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 ZTE and PT. ZTE Indonesia under “Framework Agreement for Equipment Purchase” and “Framework Agreement for Technical Support” is completed, whichever later	No	No
ZTE Telecom India Private Limited [Note 4]	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	Yes	No
ZTE Telecom India Private Limited [Note 4]	13 November 2009 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance		Yes	No
ZTE (H.K.) Limited [Note 5]	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD900 million	Joint liability assurance	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 6]	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
PT. ZTE Indonesia [Note 7]	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability assurance	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under “Equipment Purchase Contract” and “Technical Support Contract” is completed	No	No
PT. ZTE Indonesia [Note 7]	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability assurance	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under “Equipment Purchase Contract” and “Technical Support Contract” is completed (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB335,329,500		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			RMB335,329,500	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB6,611,530,100		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)			RMB6,096,900,000	

Total amount guaranteed by the Company (sum of the two categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1)	RMB353,075,700	Total amount of guarantee actually incurred during the reporting period (A2+B2)	RMB335,329,500
Total amount of guarantee approved as at the end of the reporting period (A3+B3) Note 1	RMB6,679,276,300	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) Note 1	RMB6,146,900,000
Total amount of guarantee (A4+B4) as a percentage of net assets of the Company		27.28%	
Including:			
Amount of guarantee provided on behalf of shareholders, de facto 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)		RMB6,096,900,000	
Amount of total guarantee exceeding 50% of net assets (E)		0	
Aggregate amount of the three guarantee amounts stated above (C+D+E)		RMB6,096,900,000	
Statement on potential joint liability involved in outstanding guarantees		N/A	
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 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 end of this reporting period, 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 S.A." published by the Company on 21 August 2013.

Note 2: It was considered and approved at the Twelfth Meeting of the Sixth Session of the Board of Directors that a Letter of Guarantee for Tender with an amount of KWD0.82 million be provided by the Company for Zena Technologies & Telecommunication Systems Co. WLL. The said Letter of Guarantee for Tender was executed in January 2014.

Note 3: 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 4: 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, the USD30 million performance guarantee provided by the Company and the INR6,848,100 guarantee provided to ZTE India by way of bank assurance letter had been released.

Note 5: 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 end on the date which is 60 months after the date of the syndicate loan agreement. The aforesaid guarantee was considered and passed at

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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 6: 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 7: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors that a performance guarantee of USD40 million be provided by the Company for 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 USD15 million. Since the gearing ratio of ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the Third Extraordinary General Meeting of 2013 in accordance with relevant laws and regulations. As at the end of the reporting period, a USD15 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.

Note 8: The guaranteed amounts are translated at the book exchange rates of the Company as at 31 December 2013: USD1: RMB6.0969, EUR1: RMB8.4189, INR1: RMB0.0987 and 1KWD: RMB21.6417.

Note 9: 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 also be tabled at the general meeting for approval following approval by the Board of Directors in order to be effective.

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 31 December 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 funds for non-operating purposes or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have conducted reviews in the light of 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) As at 31 December 2013, the balance of guarantees provided by the Company actually incurred was approximately RMB6,146,900,000, accounting for 27.28% of the owner's equity attributable to shareholders of the parent company. The amount of third-party guarantee (excluding guarantees on behalf of subsidiaries) actually incurred during the 2013 reporting period was zero. The balance of actually incurred third-party guarantee (excluding guarantees on behalf of subsidiaries) as at the end of the 2013 reporting period was approximately RMB50 million. Third-party guarantees on behalf of subsidiaries actually incurred during the 2013 reporting period amounted to approximately RMB335,329,500. The balance of actually incurred third-party guarantees on behalf of subsidiaries as at the end of the 2013 reporting period was approximately RMB6,096,900,000. For details of the third party guarantees of the Company, please refer to the sub-section headed "2. Third-party guarantees of the Group" in this section. The information on guarantees disclosed in the 2013 Annual Report of the Company is 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 "Notice regarding Third-party Guarantees Provided by Listed Companies"(Zheng Jian Fa [2005] No. 120), the Shenzhen Listing Rules, the Hong Kong Listing Rules 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 conducted reviews in the light of 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), the "Notice regarding the Regulation of Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2005] No. 120), and the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during 2013 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. Progress of material contracts entered into during or prior to the year

During the year, the Company did not enter into any materials contracts requiring disclosure. Details of material contracts entered into prior to, and subsisting during, the current year are set out as follows:

No.	Contents of material contracts	Date of domestic announcement	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

Material Matters

(XIII) UNDERTAKING

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

Zhongxingxin, controlling shareholder of the Company, entered into "Non-Competition Agreement" with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and shall prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or cooperative co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, except through ZTE); Zhongxingxin will immediately terminate and/or procure any of its subsidiaries to terminate any participation in, management or operation of any competing businesses or activities that Zhongxingxin and/or such subsidiaries are participating in or carrying on in any manner at any time.

On 10 December 2007, Zhongxingxin gave an undertaking that it shall disclose any intention in future to dispose of unlocked shares in the Company held via the securities trading system and to sell down shareholdings by a volume equivalent to 5% or more within six months after the first sell-down, by way of an indicative announcement to be published by the Company within two trading days before the first sell-down.

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

(XIV) APPOINTMENT OF AUDITORS

Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") and Ernst & Young acted as the Group's PRC and Hong Kong auditors, respectively.

Ernst & Young Hua Ming has been appointed the Company's PRC auditor for 9 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 10 consecutive years since 2004. The undersigning accountants of Ernst & Young Hua Ming are Mr. Li Yuxing and Ms. Fu Jie. Mr. Li Yuxing has been providing audit services to the Company for 5 years and the year under review was the fourth year for which he acted in the capacity of undersigning accountant. Ms. Fu Jie has been providing audit services to the Company for 6 years and the year under review was the second year for which she acted in the capacity of undersigning accountant.

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2013 were paid in a consolidated manner, whereby an aggregate audit fee of RMB5,850,000 was paid to Ernst & Young Hua Ming and Ernst & Young.

At the Fortieth Meeting of the Fifth Session of the Board of Directors of the Company on 27 March 2013, it was approved that Ernst & Young Hua Ming be appointed the Company's internal control auditor for 2013. The amount of 2013 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB824,000.

In 2013, Ernst & Young (China) Advisory Limited, Shenzhen Branch ("Ernst & Young Consulting") provided tax advisory services to the overseas subsidiaries of the Company and its subsidiary Shenzhen Zhongxing Software Company Limited for a fee of RMB1,053,500. Ernst & Young provided tax return and tax advisory services to the Company and its subsidiaries ZTE HK and Xinxun International (Hong Kong) Limited for a fee of HKD185,500. Save as the aforesaid two instances, Ernst & Young Hua Ming, Ernst & Young and Ernst & Young Consulting did not provide other significant non-audit services to the Group.

Item	Amount	Auditor
Audit fees 2013	RMB5,850,000	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2013	RMB824,000	Ernst & Young Hua Ming
Fees for tax advisory services 2013	RMB1,053,500	Ernst & Young Consulting
Fees for tax return and tax advisory services 2013	HKD185,500	Ernst & Young

(XV) DURING THE YEAR, 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.

(XVI) ALLEGED ILLICIT TRADING IN SHARES OF THE COMPANY BY DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES OF THE COMPANY IN RESPECT OF WHICH THE RETRIEVAL OF GAINS FROM ALLEGED ILLICIT TRADING HAS BEEN ANNOUNCED BY THE COMPANY

☐ Applicable √ N/A

(XVII) PROSPECTS OF SUSPENSION OR TERMINATION OF LISTING AFTER THE PUBLICATION OF THE ANNUAL REPORT

☐ Applicable √ N/A

(XVIII) OTHER SIGNIFICANT EVENTS

Save as aforesaid, no other significant events as specified under Rule 67 of the Securities Law and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and events that were significant in the judgment of the Board of Directors of the Company occurred to the Company during the year.

(XIX) THERE WERE NO OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE SUBSIDIARIES OF THE COMPANY DURING THE YEAR THAT REMAINED UNDISCLOSED.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	At the beginning of the year		Increase/decrease as a result of the change during the year (+, -)					At the end of the year	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others Note	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**11,260,557**	**0.33%**	**—**	**—**	**—**	**(4,034,842)**	**(4,034,842)**	**7,225,715**	**0.21%**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	2,536,742	0.08%	—	—	—	(2,536,742)	(2,536,742)	—	—
Comprising: domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	2,536,742	0.08%	—	—	—	(2,536,742)	(2,536,742)	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	8,723,815	0.25%	—	—	—	(1,498,100)	(1,498,100)	7,225,715	0.21%
II. Shares not subject to lockup	**3,428,817,463**	**99.67%**	**—**	**—**	**—**	**1,498,100**	**1,498,100**	**3,430,315,563**	**99.79%**
1. RMB ordinary shares	2,799,232,018	81.37%	—	—	—	1,498,100	1,498,100	2,800,730,118	81.47%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	629,585,445	18.30%	—	—	—	—	—	629,585,445	18.32%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**3,440,078,020**	**100%**	**—**	**—**	**—**	**(2,536,742)**	**(2,536,742)**	**3,437,541,278**	**100%**

Note: (1) In accordance with relevant domestic regulations, shares held by the Directors, Supervisors or senior management shall be subject to lock-up or unlocking on a pro-rata basis; (2) The Company has repurchased and cancelled 2,536,742 restricted shares not qualified for unlocking under the Phase I Share Incentive Scheme. For details, please refer to the "Announcement of Completion of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking" of the Company dated 3 September 2013.

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

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 year	Increase in the number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Lock-up conditions	Date of unlocking
1	Hou Weigui	973,103	0	0	973,103	Restricted senior management shares	Note 1
2	Chen Jie	595,936	0	0	595,936	Restricted senior management shares	Note 1
3	Yin Yimin	474,624	0	0	474,624	Restricted senior management shares	Note 1
4	Zeng Xuezhong	425,700	0	0	425,700	Restricted senior management shares	Note 1
5	Fan Qingfeng	421,874	0	0	421,874	Restricted senior management shares	Note 1
6	Xu Huijun	420,709	0	0	420,709	Restricted senior management shares	Note 1

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 year	Increase in the number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Lock-up conditions	Date of unlocking
7	Pang Shengqing	391,051	0	0	391,051	Restricted senior management shares	Note 1
8	Ye Weimin	387,248	0	0	387,248	Restricted senior management shares	Note 1
9	Xie Daxiong	373,869	0	0	373,869	Restricted senior management shares	Note 1
10	Zhu Jinyun	361,844	0	0	361,844	Restricted senior management shares	Note 1
11	Others	6,434,599	4,037,092	2,250	2,399,757	Restricted senior management shares and restricted shares under share option incentive scheme	Note 1, Note 2 and Note 3
	Total	**11,260,557**	**4,037,092**	**2,250**	**7,225,715**	—	—

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: Relevant shares held by Directors, Supervisors and senior management who were newly appointed or no longer in office were subjected to lock-up or released from (as the case may be) in accordance with relevant domestic regulations.

Note 3: The Company has repurchased and cancelled 2,536,742 restricted shares not qualified for unlocking under the Phase I Share Incentive Scheme. For details, please refer to the "Announcement of Completion of Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking" of the Company dated 3 September 2013.

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

1. 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.

2. 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, with a coupon interest rate of 4.20%. 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".

3. On 31 October 2013, the Company granted 102,989,000 share options to 1,528 Scheme Participants. Registration for the share options granted has been completed. The option code is "037032" and the abbreviated name is "中興JLC1."

4. Changes in the structure of assets and liabilities of the Company as a result of changes in the total number and structure of shares of the Company

   Following the Company's repurchase and cancellation of 2,536,742 restricted shares not qualified for unlocking under the Phase I Share Incentive Scheme in 2013, the total share capital of the Company has changed from 3,440,078,020 shares to 3,437,541,278 shares. The matters had no material impact on the structure of assets and liabilities of the Company.

5. The Company had no employees' shares.

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

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

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

Shareholdings of top ten shareholders

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

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

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

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

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

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

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

√ Yes ☐No

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

Changes in Shareholdings and Information of Shareholders

2. Controlling shareholder of the Company

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

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

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

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

3. The shareholders (or de facto controllers) of the Company's controlling shareholder

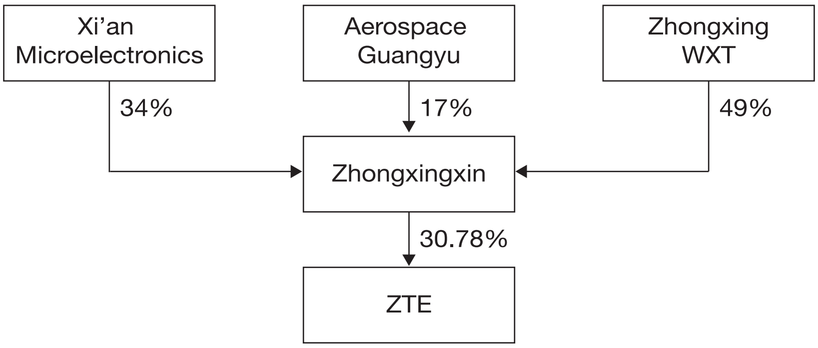
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics,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

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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Xie Weiliang and the registered capital amounts to RMB17,950,000. Its organization number is 19217503-1. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), raw materials for textile, raw materials for chemical fibre, apparel, textile; import and export operations (conducted in accordance with Shen Mao Jin [2000] No. 50 Qualifications Certificate); trade brokerage and agency, domestic trade (other than items for which approval is required prior to registration under the provisions of laws, administration regulations and State Council decisions); lease of owned properties.

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

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



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

5. **Plans to increase shareholdings proposed or implemented by shareholders of the Company and their concerted parties during the reporting period**

☐ Applicable √ N/A

Changes in Shareholdings and Information of Shareholders

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

As at 31 December 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 shares held	Shareholding as an approximate percentage (%) of: Total share capital	Class shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Zhongxing WXT	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Xi'an Microelectronics	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
China Aerospace Electronics Technology Research Institute	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
CASC	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
JPMorgan Chase & Co.	Beneficial owner and approved lending agent	56,241,256 H shares (L)	1.64(L)	8.93(L)
	Beneficial owner	30,020,640 H shares (S)	0.87(S)	4.77(S)
	Approved lending agent	27,576,139 H shares (P)	0.80(P)	4.38(P)
BlackRock, Inc.	Interest of controlled corporation	49,498,005 H shares (L)	1.44(L)	7.86(L)
	Interest of controlled corporation	23,200 H shares (S)	0.00(S)	0.00(S)
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16(L) Note	6.96(L) Note
Deutsche Bank Aktiengesellschaft	Beneficial owner, person holding interest of guarantee on shares and interest of controlled corporation	39,437,780 H shares (L)	1.15(L)	6.26(L)
	Beneficial owner and person holding interest of guarantee on shares	35,717,421 H shares (S)	1.04(S)	5.67(S)
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

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 31 December 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.

7. Purchase, sale or redemption of securities

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

8. Public float

As at the latest practicable date prior to the publication of this report, so far as the Board of Directors was aware of based on publicly available information, the Company's public float is in compliance with the minimum requirement for public float under the Hong Kong Listing Rules.

Directors, Supervisors, Senior Management and Employees

(I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Brief biographies of Directors

Mr. Hou Weigui, born 1941, is Chairman and Non-executive Director of the Company. He worked with China Aerospace Factory No. 691 as head of the technology division prior to 1984. In 1984, he went to Shenzhen to establish Shenzhen Zhongxing Semiconductor Co., Ltd., serving as general manager of the company. He was President of the Company from October 1997 to February 2004 and has been Chairman and Non-executive Director of the Company since February 2004. Mr. Hou has extensive experience in the telecommunications sector and in corporate and business management.

Mr. Zhang Jianheng, born 1961, is Vice Chairman and Non-executive Director of the Company. Mr. Zhang graduated from Dalian Institute of Technology in 1982 majoring in Chemical Machinery and currently holds the title of senior engineer. Mr. Zhang worked with the No. 1 Film Factory under the Ministry of Chemical Industry from 1982 to 1989 and with No. 1 Film Factory of China Lucky Film Corporation from 1989 to 1996. He was appointed director of China Lucky Film Corporation in 1996, and went on to serve as deputy general manager and general manager of that company until 2011. During this period, he also concurrently acted as general manager (vice chairman) and chairman of Lucky Film Co., Ltd. Since November 2012 he has been chairman of China Lucky Group Corporation. In November 2011 he was appointed deputy general manager of China Aerospace Science and Technology Corporation, a position that he has been holding since. He has been non-executive director and board chairman of China Aerospace International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) since 26 March 2012, and has been Vice Chairman and Non-executive Director of the Company since April 2012. Mr. Zhang brings with him a wealth of experience in management and operation.

Mr. Xie Weiliang, born 1956, is Vice Chairman and Non-executive Director of the Company. Mr. Xie graduated from the Faculty of Politics, National University of Defense Technology in 1982 and currently holds the title of professor. Mr. Xie served as the head of Nanjing Aerospace Management Cadres Institute from 2001 to 2003, and as director and general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. and general manager of Shenzhen Aerospace Guangyu Industrial Company Limited since 2003. He has been Vice Chairman and Non-executive Director of the Company since February 2004 and is concurrently chairman of Zhongxingxin. Mr. Xie has substantial experience in management and business operations.

Mr. Wang Zhanchen, born 1952, is Non-executive Director of the Company. Mr. Wang graduated from Xi'an Artillery Engineering Institute in 1976 and currently holds the title of senior engineer. Mr. Wang served as factory manager of Beijing Xinghua Machinery Factory of China Academy of Launch Vehicle Technology during 1997 to 2001. He has been vice chairman of China Aerospace Times Electronics Co., Ltd. since June 2008 and Non-executive Director of the Company since March 2010. Mr. Wang has substantial experience in management and business operations.

Mr. Zhang Junchao, born 1953, is Non-executive Director of the Company. Mr. Zhang graduated from Department (I) of Electronic and Wireless Engineering, Xi'an Jiaotong University in 1977 and currently holds the title of researcher. Mr. Zhang served as the deputy head of Foundational Electronic Technology Institute of China Aerospace Science and Technology Corporation from 2000 to March 2003, and had been head of Shaanxi Management Division of China Aerospace Times Electronics Corporation (renamed as "China Academy of Aerospace Electronics Technology") and head of Xi'an Microelectronics Technology Institute from May 2003 to January 2014. He has been deputy head of China Academy of Aerospace Electronic Technology since September 2010 and Non-executive Director of the Company since February 2004. He is concurrently vice chairman of Zhongxingxin. Mr. Zhang has substantial experience in management and business operations.

Mr. Dong Lianbo, born 1957, is Non-executive Director of the Company. Mr. Dong graduated from Northeastern University in 2001 majoring in Business Administration and currently holds the titles of researcher-grade senior engineer. Mr. Dong served as director and deputy general manager of Shenyang Aerospace Xinguang Group from 2001 to 2002, deputy team head of the Shenzhen Business Integration Working Group of China Aerospace Science and Industry Corporation from 2002 to 2003 and director and deputy general manager of Aerospace Technology Shenzhen (Group) Co., Ltd. since 2003. He has been Non-executive Director of the Company since February 2004 and is concurrently director of Zhongxingxin. Mr. Dong has substantial experience in management and business operations.

Mr. Shi Lirong, born 1964, is Executive Director and President of the Company. Mr. Shi graduated from Tsinghua University in 1984 majoring in wireless and information technology with a bachelor's degree and Shanghai Jiaotong University in 1989 majoring in telecommunications and electronic engineering with a master's degree, and currently holds the title of senior engineer. Mr. Shi served as an engineer and head of the production department in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was deputy general manager of Zhongxingxin. He was in charge of the Company's overall marketing operations from 1997 to 2007 and, since 2007, the Company's global sales. He has been Executive Director of the Company since February 2001 and President of the Company since March 2010. Mr. Shi has many years of experience in the telecommunications industry and over 23 years of management experience.

Mr. Yin Yimin, born 1963, is Executive Director of the Company. Mr. Yin graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a master's degree in engineering, majoring in telecommunications and electronic systems, and currently holds the title of senior engineer. Mr. Yin had served as a manager of the research and development department of Shenzhen Zhongxing Semiconductor Co., Ltd. since 1991, and as deputy general manager of Zhongxingxin between 1993 and 1997. From 1997 to March 2010 he served as the Company's Vice President, Senior Vice President and President, being in charge of different divisions such as research and development, marketing, sales and handsets operations. He has been Executive Director of the Company since November 1997. Mr. Yin has many years of experience in the telecommunications industry and over 23 years of management experience.

Mr. He Shiyou, born 1966, is Executive Director of the Company. Mr. He graduated from Beijing University of Posts and Telecommunications in 1990 with a master's degree in engineering, specialising in electromagnetic field and microwave technology and currently holds the title of senior engineer. Mr. He joined Zhongxingxin in 1993 and had since served as chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's Vice President from 1998 to 1999, responsible for divisions such as research and development and marketing. Since 1999, he has served as a Senior Vice President of the Company responsible for Sales Division II and the Handset Division of the Company. He has been Executive Director of the Company since February 2001. Mr. He has many years of experience in the telecommunications industry as well as over 21 years of management experience.

Directors, Supervisors, Senior Management and Employees

Ms. Qu Xiaohui, born 1954, is Independent Non-executive Director of the Company. Ms. Qu graduated from Xiamen University in July 1989 with a doctorate degree in Economics (Accounting) and currently holds the title of accounting professor. She was named a Fulbright Scholar under the U.S. Fulbright Scholar Program in May 2001. Ms. Qu is the first female PhD in accounting and female tutor for doctorate candidates in accounting in China, as well as the promoter of the project hypothesis procedure for the creation of a professional master's degree in accounting (MPAcc) in China. She is currently head of the research center for accounting development at Xiamen University (a key research base for arts disciplines designated by the Ministry of Education) and head of Financial Management and Accounting Research Institute of Xiamen University (a "National 985" Innovative Base for Philosophy and Social Science). Since August 1989, she has been engaged in teaching and academic research at the Department of Accounting of Xiamen University. She has been Independent Non-executive Director of the Company since July 2009. Ms. Qu is concurrently independent non-executive director of Yunnan Baiyao Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Taikang Life Insurance Co., Ltd. and Guangzhou Baiyun Electric Equipment Co., Ltd. and chief financial advisor of Xiamen NetinNet Software Co., Ltd. Ms. Qu is well qualified, both academically and professionally, and vastly experienced in the accounting and finance sector.

Mr. Wei Wei, born 1965, is Independent Non-executive Director of the Company. Mr. Wei graduated from Huazhong University of Science and Technology in 2004 with a doctorate degree in management science and engineering. Mr. Wei was a post-doctorate fellow at Chinese Economic Research Centre at the Peking University from July 2004 to June 2006. He has worked in Xinjiang Technology College and Xinjiang University. He was assistant to the Dean of Shenzhen School of Business of Peking University from July 2006 to September 2007 and has been associate dean of HSBC Business School of Peking University and the head of the Research Centre of Doers' Group Business Model of HSBC Business School of Peking University since October 2007. He has been Independent Non-executive Director of the Company since July 2009. Mr. Wei is concurrently independent non-executive director of Changyuan Group Company Limited (a company listed on Shanghai Stock Exchange), Dalian Zhangzidao Fishery Group Company Limited (a company listed on Shenzhen Stock Exchange) and Telling Telecommunication Holding Co., Ltd. (a company listed on Shenzhen Stock Exchange). Mr. Wei is well qualified, both academically and professionally, and vastly experienced in corporate management.

Mr. Chen Naiwei, born 1957, is Independent Non-executive Director of the Company. Mr. Chen graduated from the Graduate School of Macau University of Science and Technology in 2007 with a doctorate degree in Law. He holds the title of professor in Law and is a qualified lawyer in China. Mr. Chen has served as head of the Law Faculty and head of the Intellectual Property Research Centre of Shanghai Jiaotong University. He has been a partner and senior lawyer of Shanghai Allbright Law Offices since 2001. Mr. Chen has been an Independent Non-executive Director of the Company since July 2009 and is concurrently independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange), Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Shanghai Kinlita Chemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. Chen is well qualified, both academically and professionally, and vastly experienced in the legal sector.

Mr. Tan Zhenhui, born 1944, is Independent Non-executive Director of the Company. Mr. Tan graduated from Southeast University in 1987 with a doctorate degree in engineering specialising in telecommunications and electronic systems, and currently holds the title of professor. Mr. Tan is currently chairman of the Academic Committee and a professor of Beijing Jiaotong University, where he has been working since August 1982 and served as faculty dean, vice chancellor and chancellor. He has been Independent Non-executive Director of the Company since March 2010 and is concurrently independent non-executive director of Jiangsu Tongding Optic-Electronic Stock Co., Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. Tan is well qualified, both academically and professionally, and vastly experienced in the telecommunications sector.

Mr. Timothy Alexander Steinert (石義德), born 1960. Mr. Steinert is a United States national with Hong Kong permanent resident status. Mr. Steinert obtained a bachelor's degree from Yale University in 1983 and a juris doctor degree from Columbia University in 1989. Mr. Steinert is a qualified lawyer in both Hong Kong and New York, the United States. From 1999 to 2007, he was a partner in the corporate department of Freshfields Bruckhaus Deringer (Hong Kong). He has been the general counsel of Alibaba Group Holding Limited since July 2007 and was Independent Non-executive Director of the Company from June 2010 to June 2013. Mr. Steinert is well qualified, both academically and professionally, and substantial experience in the legal sector.

Mr. Richard Xike Zhang, born in 1970, is Independent Non-executive Director of the Company. Mr. Zhang graduated from J. L. Kellogg School of Management at Northwestern University in the United States in 1993 with a master's degree in finance. Mr. Zhang was mentioned among the most outstanding graduates of U.S. colleges by USA Today, a mainstream news media in the United States. From August 1993 to July 2008, Mr. Zhang was employed by McKinsey & Company in both the United States and China, ultimately holding the position of Director (Senior Partner) in McKinsey's Shanghai Office. He served clients primarily in the telecommunications, technology, and automobile sectors. He was the first McKinsey Partner with a Mainland Chinese background in McKinsey's 80-year history. Mr. Zhang assumed the role of Partner and Head of Greater China of Apax Partners in August 2008. In January 2013, he was promoted to an Equity Partner while continuing to serve as Apax Greater China head with responsibilities covering Apax funds investment operations in Mainland China, Hong Kong, Taiwan and Southeast Asia. He has been Independent Non-executive Director of the Company since 2013 June. Mr. Zhang was also a member of the "Young Leaders Group" of the Boao Forum for Asia. Mr. Zhang brings with him extensive experience in management consulting and investment.

2. Brief biography of Secretary to the Board of Directors/Company Secretary

Mr. Feng Jianxiong, born 1974, is the Secretary to the Board of Directors and Company Secretary of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor's degree in economics, majoring in international finance, and from CEIBS in 2012 with a master's degree in Business Administration. He joined Zhongxingxin, controlling shareholder of the Company, in July 1996, and has been the Secretary to the Board of Directors of the Company since 2000, with spells as heads of the Investment Department, Securities and Finance Department and Securities and Investor Relations Department of the Company during the period. Mr. Feng has many years of experience in the telecommunications industry and over 14 years of management experience.

3. Brief biographies of Supervisors

Mr. Zhang Taifeng, born 1941, graduated from Jilin University in 1966 specialising in semiconductor technology. He has previously held the positions of chief engineer and head of China Aerospace Factory No. 691 and head of Xi'an Microelectronics. He joined Zhongxingxin, controlling shareholder of the Company, in April 1993. He was Chairman of the Company from November 1997 to February 2004 and from February 2004 to March 2013 Chairman of the Supervisory Committee of the Company.

Mr. Xie Daxiong, born 1963, is Chairman of the Supervisory Committee of the Company. Mr. Xie is a professor-grade senior engineer. He graduated from the Nanjing University of Science and Technology in 1986 with a master's degree in engineering, specialising in applied mechanics. Mr. Xie joined Zhongxingxin, controlling shareholder of the Company, in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie had been CDMA Product Manager and General Manager of CDMA Division of the Company. From 2004 to 2012, he was Executive Vice President of the Company in charge of the Company's technology planning and strategy. He has become Chairman of the Supervisory Committee of the Company since March 2013, As a national-level candidate of the talent programme, Mr. Xie is entitled to special government grants awarded by the State Council. He was also a recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry and over 17 years of management experience.

Ms. He Xuemei, born 1970, is Supervisor of the Company and chairperson of the labor union of the Company. Ms. He obtained a bachelor's degree in mechanical engineering in 1991 and a second bachelor's degree in business administration in 1995, both from Chongqing University, where she had worked at the Student Affairs Department. Ms. He has worked with ZTE Kangxun and the Network Operations Division of the Company after joining the Company in January 1998.

Mr. Zhou Huidong, born 1976, is Supervisor of the Company and Head of the Financial Control Department. He joined the Company in July 1998 upon graduation from Peking University with a bachelor's degree majoring in finance and accounting. Mr. Zhou is a certified public accountant and a certified tax agent.

Ms. Wang Yan, born 1965, graduated from the Department of Management of Northeast Industrial Institute in July 1988, majoring in Industrial Accounting, with a bachelor's degree in engineering. Ms. Wang was qualified as an accountant in the PRC in December 1992 and further obtained the qualification of senior accountant in the PRC in September 1999. She joined Zhongxingxin, controlling shareholder of the Company, in 1999 and had been deputy general manager and chief accountant of Zhongxingxin. She has been a director and deputy general manager of Shenzhen Zhongxing Micro Finance Co., Ltd. since October 2010 and was Supervisor of the Company from June 2005 to March 2013.

Ms. Xu Weiyan, born 1962, is Supervisor of the Company and is currently serving at the Logistics System of the Company. Ms. Xu graduated from the Department of History of Liaoning Normal University in July 1988 with a bachelor's degree in History and was qualified as an economist in 1992. She worked with Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993 and with Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997, holding various positions such as secretary to the company's finance committee and deputy head of the president's office. She has been working for the Company since 1997, holding positions such as head of the Tender Department.

Mr. Chang Qing, born 1955, is Supervisor of the Company. Mr, Chang holds the title of senior engineer, having graduated from the Department of Physics of the Northwest University specializing in semi-conductor and obtained a bachelor of science degree in February 1982. From March 1993 to August 1996 he was executive deputy general manager of Shenzhen Zhongxing WXT Equipment Company Limited. He was general manager of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited overseeing the northeastern regional market from September 1996 to October 1997, general manager (Northeast Region) of the Company and Head of the 7th Marketing Department from November 1997 to February 2000, and general manager of 陝西中興百綠環保工程有限責任公司 from March 2000 to March 2008. He is currently assistant to the general manager and chairman of the workers' union of Zhongxingxin, controlling shareholder of the Company. He has been Supervisor of the Company since March 2013.

4. Brief biographies of Senior Management

Mr. Shi Lirong, President of the Company. Please refer to the section headed "Brief biographies of Directors" for his biography.

Mr. Wei Zaisheng, born 1962, is currently Executive Vice President and Chief Financial Officer in charge of corporate finance and investment management of the Group. Mr. Wei obtained a master's degree in business administration from Peking University in 2004. He joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1988 and served as chief financial officer and assistant to the general manager of Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997. He was Senior Vice President of the Company from 1997 to 1999 and has been Executive Vice President of the Company in charge of the Financial System of the Company since 1999. He was appointed member of China Accounting Informatisation Committee and member of XBRL Regional Steering Committee (China) by the Ministry of Finance in November 2008. He is concurrently director of Zhongxingxin, controlling shareholder of the Company, and chairman of ZTE Group Finance Co. Ltd. Mr. Wei has many years of experience in the telecommunications industry and over 25 years of management experience.

Mr. Tian Wenguo, born 1969, has been Executive Vice President of the Company since 2005 and is currently in charge of sales and post-sales engineering operations of the Company. Mr. Tian graduated from Harbin Institute of Technology in 1991 with a bachelor's degree in engineering, specialising in electromagnetic surveys and devices. In 2006, he graduated from Tsinghua University with a master's degree in business administration. Mr. Tian joined Zhongxingxin, controlling shareholder of the Company, in 1996. Mr. Tian was manager of the Company's Chongqing Sales Office and general manager (Southwest Region) from 1997 to 2002 and Senior Vice President and General Manager of Sales Division II of the Company from 2002 to 2005. Since 2005, he has been Executive Vice President of the Company in charge of Marketing and Operations System, Marketing System, Product Marketing System and Logistics System of the Company. Mr. Tian has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Qiu Weizhao, born 1963, was Senior Vice President of the Company from 1998 to 2006. He has been Executive Vice President of the Company since 2007 and is currently in charge of Logistics and Administration Affairs of the Company. Mr. Qiu graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master's degree in engineering. Mr. Qiu was in charge of the Logistics System of the Company from 1998 to 2007, Human Resources and Administration System from 2008 to 2012 and Logistics and Administration since September 2012. Mr. Qiu has many years of experience in the telecommunications industry and over 25 years of management experience.

Mr. Fan Qingfeng, born 1968, has been Executive Vice President of the Company since March 2008. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree specialising in industrial electrical automation, and from Tsinghua University in 2006 with a master's degree in business administration. Mr. Fan joined Zhongxingxin in 1996. From 1997 to 2008, Mr. Fan acted as project manager of regional office, manager of regional office, regional general manager, division deputy general manager and Senior Vice President of the Company. Mr. Fan has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Zeng Xuezhong, born 1973, has been Executive Vice President of the Company since January 2014 and is currently in charge of the Terminals Division. Mr. Zeng graduated from Tsinghua University with a bachelor's degree in science, specialising in modern applied science, in 1996 and with an EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to July 2006, Mr. Zeng had been senior project manager, assistant to regional general manager, manager of Guiyang Office, manager of Kunming Office, deputy general manager and general manager of Sales Division II and Vice President of the Company. Since 2006, he had been Senior Vice President of the Company in charge of Sales Division III. Since January 2014, he has been Executive Vice President of the Company in charge of the Terminals Division of the Company. Mr. Zeng has many years of experience in the telecommunications industry and over 15 years of management experience.

Mr. Zhao Xianming, born 1966, has been Executive Vice President of the Company since January 2014 and is currently in charge of the Strategic and Platform Operations of the Company and concurrently acting as CTO. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate degree in engineering. He joined the Company in 1998 to be engaged in the research, development and management of CDMA products. He had been head of the research and development group, project manager and general product manager from 1998 to 2003. In 2004, he was appointed Senior Vice President of the Company in charge of the CDMA Division and the Wireless Product Division. In January 2014, he was appointed Executive Vice President of the Company in charge of the Strategic and Platform Operations of the Company. Mr. Zhao has many years of experience in the telecommunications industry and over 22 years of management experience.

Directors, Supervisors, Senior Management and Employees

Ms. Chen Jie, born 1958, has been Senior Vice President of the Company since 2002 and is currently in charge of product research and development and operations management of the Wireline Product Operation Division. Ms. Chen graduated from Nanjing Institute of Posts and Telecommunications (now known as "Nanjing University of Posts and Telecommunications") in 1989 specialising in telecommunications and electronic systems and from the New York University in 1995 specialising in computer science and technology with a double master's degree. Ms. Chen holds the titles of senior researcher and senior engineer. From 1989 to 1992, Ms. Chen was manager of the Development Department of Shenzhen Zhongxing Semiconductor Co., Ltd. She worked as senior researcher and manager of Research Department of AT&T Bell Laboratories in U.S. from 1995 to 1998. From 1998 to early 2002, she served as general manager of the Company's U.S. subsidiary. She served as general manager of the Networking Operations Division on a concurrent basis following appointment as Senior Vice President of the Company in 2002. She has been responsible for the global research and development and sales of ZTE wireline products for a substantial period from 2007 onwards, having been general manager of the Wireline and Services Products Division under the Marketing System and general manager of the Wireline Division and the Wireline Product Division, respectively, under the Product Research and Development System. Ms. Chen has demonstrated strong research and development capabilities and expertise with many years of management experience in both the domestic and international telecommunications industry.

Mr. Pang Shengqing, born 1968, has been Senior Vice President of the Company since 2005 and is currently in charge of the Government and Enterprise Sectors Division of the Company. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin, controlling shareholder of the Company, in 1995. From 1998 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology and hardware systems. Mr. Pang was deputy general manager of the CDMA Division from 2001 to 2004 and general manager of Sales Division I of the Sales System of the Company from 2005 to December 2011, and general manager of the System Product Solutions Division of the Company from 2012 to 2013. Mr. Pang has many years of experience in the telecommunications industry and over 15 years of management experience.

Mr. Xu Huijun, born 1973, has been Senior Vice President of the Company since 2004 and is currently in charge of the Wireless Product Division of the Company. Mr. Xu graduated from Tsinghua University in 1998 with a master's degree in engineering, specialising in electronic engineering. He joined the Company in 1998 and had served as a project manager of the General Product Division and the head of Beijing Research Centre from 1998 to 2003. He has been in charge of the General Product Division and Engineering Services under the Sales System of the Company after appointment as Senior Vice President of the Company in 2004. Mr. Xu has many years of experience in the telecommunications industry and over 15 years of management experience.

Mr. Ye Weimin, born 1966, has been Senior Vice President of the Company since 2001 and is concurrently acting as Deputy General Manager of the Terminal Business Division of the Company in charge of China operations of the Terminal Business Division. Mr. Ye graduated from Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering, majoring in computer science and engineering. He graduated from Rennes-Shanghai Jiaotong University in 2007 with a doctor degree in business administration conferred by ESC Rennes School of Business, specialising in business administration. He has been involved in the research and development as well as engineering work of digital programme-control switches and mobile communication systems after joining Zhongxingxin, controlling shareholder of the Company, in 1994. From 1997 to 2001, he had served as chief officer of the Central Laboratory, head of Quality Control Department and the Customer Services Department of the Mobile Division and deputy general manager of Sales Division III of the Company. Since 2001, he has been Senior Vice President of the Company in charge of the Mobile Division, Sales Division V, Handset Logistics Team and Procurement Tender Team. Mr. Ye has many years of experience in the telecommunications industry and over 21 years of management experience at intermediate and senior levels.

Mr. Ni Qin, born 1959, graduated from Shanghai School of Posts and Telecommunications in 1981, specialising in telecommunications. From 1981 to 1994, Mr. Ni carried out research and development work in Shanghai Postal and Telecommunication Research Institute No. 1. He served as head of Shanghai Research Institute of Zhongxingxin, controlling shareholder of the Company, from 1994 to 1997. From 1998 to 2012, he had been in charge of the Access Product Division, Handset Division and IT construction of the Company as Senior Vice President of the Company. Mr. Ni has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Wu Zengqi, born 1964, graduated from Fudan University in 1990 with a master's degree in economics, specialising in global economics. He joined the Company in 1999 and had been the chief representative of the Libyan Office of Sales Division I, general manager of North Africa Region and general manager of North Africa Region of Sales Division V from 1999 to 2006. From 2007 to 2012, he was Senior Vice President in charge of Sales Division V of the Company. Mr. Wu has many years of experience in the telecommunications industry and over 14 years of management experience.

Mr. Zhu Jinyun, born 1972, has been Senior Vice President of the Company since 2009. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering, specialising in communications and electronic systems. He joined the Company in the same year to be engaged in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA Hardware Development Department, general project manager for various products under the CDMA Division and general project manager for WCDMA products. From 2009 to 2012, he was General Manager of Sales Division IV of the Company. Since 2013, he has been general manager of the Cloud Computing and IT Products Operations. Mr. Zhu has many years of experience in the telecommunications industry and over 14 years of management experience.

Mr. Zhang Renjun, born 1969, has been Senior Vice President of the Company since 2009 and is currently in charge of Sales Division I. Mr. Zhang graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2011, he had been Deputy General Manager of Sales Division I, Deputy General Manager of Sales Division IV, Head of the MTO Division and Director of the PMO Divison, both under the Sales System, and General Manager of Sales Division II. Mr. Zhang has many years of experience in the telecommunications industry and over 14 years of management experience.

Mr. Wang Jiaran, born 1969, graduated from Hunan University in 1992 with a bachelor's degree, majoring in computer science. Mr. Wang joined the Company in 1993 and was involved in domestic and international marketing. From 1993 to 2011 he had been manager of several offices under Sales Division III, chief representative of the Second Expansion Office for the South Africa Region and Deputy General Manager of Sales Division II. From 2012 to August 2013 he was in charge of Sales Division II under the Sales System as General Manager of the Division. Since September 2013, he has been working as Assistant to the President, being in charge of tender-related operations of the Company. Mr. Wang has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Chen Jianzhou, born 1970, has been Senior Vice President of the Company since March 2012 and is currently in charge of human resources, quality control and processes of the Company. Mr. Chen graduated from Tsinghua University in 1995 with a master's degree in engineering, majoring in signals and information systems. Mr. Chen joined the Company in 1995 to be engaged in research and development as well as technical support. He was head of the Human Resources Centre of the Company from 1996 to 2003 and head of ZTE Academic Institute from 2003 to 2010. From October 1997 to February 2004, he acted as Supervisor of the Company. In 2011, he was Assistant to the President responsible for the Company's Architecture and Processes. From 2012 to 2013, Mr. Chen was in charge of Processes and Human Resources of the Company. Mr. Chen has many years of experience in the telecommunications industry and over 17 years of management experience.

Directors, Supervisors, Senior Management and Employees

Mr. Cheng Lixin, born 1966, has been Senior Vice President of the Company since April 2013 and is currently Deputy General Manager of the Terminal Business Division of the Company in charge of the North America operations of the Terminal Business Division. Mr. Cheng graduated from Zhejiang University in 1989 with a Bachelor's Degree in Engineering, majoring in Radio Engineering, and completed EMBA studies in the U.S. in 1997. Mr. Cheng worked at Nanjing Panda Ltd. as an engineer and a project manager from 1989 until 1992. From 1992 to 2001, he had been project manager, production engineering manager, deputy general manager of supply chain division, general manager of sales division and vice president of sales and supply at Nanjing Ericsson Panda Ltd. From 2001 to 2004, Mr. Cheng served as sales director at Ericsson Wireless Inc in the U.S. From 2004 to 2006, He had been director, president and chief sales officer at Axesstel Inc in the U.S. From 2006 to 2010, he served as President of ALA Group, Inc. Mr. Cheng joined the Company in 2010 as Deputy General Manager of Sales Division IV and General Manager of North America Region of the Company and CEO of ZTE (USA) Inc. ("ZTE USA"). Since April 2013, he has been Senior Vice President of the Company in charge of Sales Division IV of the Company. Mr. Cheng has 20 years of experience in the telecommunications industry and top-level management at multinational corporations.

Mr. Xiong Hui, born 1969, has been Senior Vice President of the Company since January 2014 and is currently in charge of Marketing Division V of the Company. Mr. Xiong graduated from Sichuan University in 1990 majoring in Materials Studies, with a bachelor's degree in engineering. He received a master's degree in management, specialising in management science and engineering, in 1998 and a doctorate degree in enterprise management in 2007, both from the University of Electronic Science and Technology of China. Mr. Xiong joined the Company in 1998. He had been head of Business Technology Section at the Company's Chongqing Sales Office, Head of Planning Department, Head of HR Department, Deputy General Manager of the Handset Division, General Manager of U.S. Operations of the Handset Division, and General Manager of European and U.S. Operations of the Handset Division from 1998 to 2012. He has been General Manager of Marketing Division V of the Company since 2013. Mr. Xiong has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Zhang Zhenhui, born 1973, has been Senior Vice President of the Company since January 2014 and is currently in charge of Marketing Division III of the Company. Mr. Zhang graduated from Harbin University of Science and Technology in 1993 with a bachelor's degree in engineering, majoring in equipment engineering and management. In 1998, he received a master's degree in management science from Jiangsu University. In 2004, he received a doctorate degree in management science and engineering from Southeast University. Mr. Zhang had served as manager of Shijiazhuang Office and manager of Taiyuan Office of the Company from September 2002 to July 2006 after joining the Company in 2001. He was appointed Deputy General Manager of Marketing Division III of the Company in July 2006 and General Manager of Marketing Division III of the Company in January 2014. Mr. Zhang has many years of experience in the telecommunications industry and over 10 years of management experience.

Mr. Feng Jianxiong is Secretary to the Board of Directors/Company Secretary of the Company. Please refer to "Brief biography of Secretary to the Board/Company Secretary" in this section for his biography.

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

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

No.	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from shareholder entities
Directors of the Company														
1	Hou Weigui	Chairman	Incumbent	Male	72	3/2013	3/2016	1,297,472	–	–	1,297,472	–	80.2	No
2	Zhang Jianheng	Vice Chairman	Incumbent	Male	52	3/2013	3/2016	–	–	–	–	–	10.0	No
3	Xie Weiliang	Vice Chairman	Incumbent	Male	57	3/2013	3/2016	32,760	–	–	32,760	–	10.0	Yes
4	Wang Zhanchen	Director	Incumbent	Male	61	3/2013	3/2016	–	–	–	–	–	10.0	No
5	Zhang Junchao	Director	Incumbent	Male	60	3/2013	3/2016	32,760	–	–	32,760	–	10.0	No
6	Dong Lianbo	Director	Incumbent	Male	56	3/2013	3/2016	32,760	–	–	32,760	–	10.0	Yes
7	Shi Lirong	Director and President	Incumbent	Male	49	3/2013	3/2016	410,511	–	–	410,511	–	67.3	No
8	Yin Yimin	Director	Incumbent	Male	50	3/2013	3/2016	632,833	–	–	632,833	–	77.9	No
9	He Shiyou	Director	Incumbent	Male	47	3/2013	3/2016	344,940	–	–	344,940	–	65.9	No
10	Qu Xiaohui	Independent Non-executive Director	Incumbent	Female	59	3/2013	7/2015	–	–	–	–	–	13.0	No
11	Wei Wei	Independent Non-executive Director	Incumbent	Male	48	3/2013	7/2015	–	–	–	–	–	13.0	No
12	Chen Naiwei	Independent Non-executive Director	Incumbent	Male	56	3/2013	7/2015	–	–	–	–	–	13.0	No
13	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	69	3/2013	3/2016	–	–	–	–	–	13.0	No
14	Timothy Alexander Steinert[Note 1]	Independent Non-executive Director	Resigned	Male	53	3/2013	6/2013	–	–	–	–	–	6.5	No
15	Richard Xike Zhang[Note 1]	Independent Non-executive Director	Incumbent	Male	43	6/2013	3/2016	–	–	–	–	–	6.5	No
Supervisors of the Company														
16	Zhang Taifeng	Chairman of Supervisory Committee	Resigned	Male	72	3/2010	3/2013	501,425	–	21,400	480,025	Note 6	44.6	No
17	Xie Daxiong[Note 2]	Chairman of Supervisory Committee	Incumbent	Male	50	3/2013	3/2016	498,492	–	85,323	413,169	Note 6	89.3	No
18	He Xuemei	Supervisor	Incumbent	Female	43	3/2013	3/2016	80,347	–	–	80,347	–	27.6	No
19	Zhou Huidong	Supervisor	Incumbent	Male	37	3/2013	3/2016	78,158	–	–	78,158	–	33.8	No
20	Wang Yan	Supervisor	Resigned	Female	48	3/2010	3/2013	–	–	–	–	–	–	Yes
21	Xu Weiyan	Supervisor	Incumbent	Female	51	3/2013	3/2016	9,199	–	–	9,199	–	46.2	No
22	Chang Qing[Note 2]	Supervisor	Incumbent	Male	58	3/2013	3/2016	–	–	–	–	–	–	Yes
Senior Management of the Company														
23	He Shiyou[Note 3]	Executive Vice President	Resigned						Note 3					
24	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	51	4/2013	3/2016	437,421	–	–	437,421	–	63.7	No
25	Xie Daxiong[Note 4]	Executive Vice President	Resigned						Note 4					
26	Tian Wenguo	Executive Vice President	Incumbent	Male	44	4/2013	3/2016	273,169	–	68,292	204,877	Note 6	63.7	No
27	Qiu Weizhao	Executive Vice President	Incumbent	Male	50	4/2013	3/2016	446,600	–	61,186	385,414	Note 6	61.9	No
28	Fan Qingfeng	Executive Vice President	Incumbent	Male	45	4/2013	3/2016	562,500	–	80,000	482,500	Note 6	64.1	No
29	Zeng Xuezhong[Note 3]	Senior Vice President	Resigned	Male	40	4/2013	1/2014	567,600	–	140,000	427,600	Note 6	76.9	No
		Executive Vice President	Incumbent			1/2014	3/2016							
30	Zhao Xianming[Note 3]	Senior Vice President	Resigned	Male	47	4/2013	1/2014	431,873	–	107,968	323,905	Note 6	448.1	No
		Executive Vice President	Incumbent			1/2014	3/2016							
31	Chen Jie	Senior Vice President	Incumbent	Female	55	4/2013	3/2016	794,583	–	50,000	744,583	Note 6	100.5	No
32	Pang Shengqing	Senior Vice President	Incumbent	Male	45	4/2013	3/2016	521,402	–	100,000	421,402	Note 6	152.8	No
33	Xu Huijun	Senior Vice President	Incumbent	Male	40	4/2013	3/2016	560,945	–	–	560,945	–	106.2	No
34	Ye Weimin	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	516,331	–	119,083	397,248	Note 6	56.2	No
35	Ni Qin[Note 4]	Senior Vice President	Resigned	Male	54	3/2010	1/2013	730,560	–	180,440	550,120	Note 6	40.9	No
36	Wu Zengqi[Note 4]	Senior Vice President	Resigned	Male	49	3/2010	1/2013	486,570	–	139,240	347,330	Note 6	71.8	No
37	Zhu Jinyun	Senior Vice President	Incumbent	Male	41	4/2013	3/2016	482,460	–	–	482,460	–	54.0	No
38	Zhang Renjun	Senior Vice President	Incumbent	Male	44	4/2013	3/2016	–	–	–	–	–	54.0	No
39	Wang Jiaran[Note 4]	Senior Vice President	Resigned	Male	44	3/2012	1/2013	151,107	–	–	151,107	–	37.1	No
40	Chen Jianzhou	Senior Vice President	Incumbent	Male	43	4/2013	3/2016	130,028	–	–	130,028	–	54.0	No
41	Cheng Lixin[Note 5]	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	3,000	–	–	3,000	–	344.3	No
42	Feng Jianxiong	Secretary to the Board	Incumbent	Male	39	4/2013	3/2016	275,000	–	–	275,000	–	56.0	No
	Total	**–**	**–**	**–**	**–**	**–**	**–**	**11,322,806**	**–**	**1,152,932**	**10,169,874**	**–**	**2,554.0**	**–**

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

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

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

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

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

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

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

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

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

(III) 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	January 2014	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
Chang Qing	Zhongxingxin	Assistant to general manager	April 2008	Incumbent	Yes
		Chairman of workers' union	December 2012	Incumbent	No
Wei Zaisheng	Zhongxingxin	Director	May 2013	May 2016	No

(IV) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING KEY 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 12 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 Note 2	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 3	Held positions in 3 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Director	No
Yin Yimin Note 4	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 5	Held positions in 2 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited	Chairman	No
	Zhongxing WXT	Supervisor	No
Qu Xiaohui	Xiamen University	Professor	Yes
		Head/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 Note 6	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
	Shanghai Kinlita Chemical 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

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Zhang Taifeng Note 7	Held positions in 2 subsidiaries including ZTE Kangxun	Chairman	No
Xie Daxiong	Held positions in 6 subsidiaries including Tianjin Zhongxing Software Company Limited	Chairman/director	No
Zhou Huidong Note 8	Held positions in 11 subsidiaries including ZTE Group Finance	Supervisor	No
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Supervisor	No
	Shanghai ZTE Straw Communication Limited (上海中興思秸通訊有限公司)	Supervisor	No
Wang Yan	Held positions in 3 companies including Zhongxing Xinyu	Director/supervisor/deputy general manager and chief financial officer	Note 9
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 16 subsidiaries including ZTE Group Finance	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Capital Group Co., Ltd.	Supervisor	No
Tian Wenguo	Held positions in 9 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
Zeng Xuezhong	Held positions in 6 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman/director	No
	ZTE 9 (Wuxi) Co., Ltd.(中興九城網絡科技無錫有限公司)	Chairman	No
Zhao Xianming	Held positions in 4 subsidiaries including ZTE Integration Telecom Company Limited	Chairman/general manager	No
Chen Jie	Held positions in 10 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/general manager	No
Pang Shengqing	Held positions in 12 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Xu Huijun	深圳市中興通訊節能服務有限責任公司	General manager	No
	Held positions in 2 companies including Zhongxing Energy 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 2 subsidiaries including ZTE (USA), Inc.	Chairman/director/general manager	Note 10
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., chairman of Telrise Inc. of the U.S. and chairman of Telrise (Cayman) Telecom Limited as from April 2013, May 2013 and October 2013, respectively.

Note 2: Mr. Zhang Junchao ceased to be Head of Shaanxi Management Division of China Academy of Aerospace Electronics Technology as from January 2014.

Note 3: 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; and ceased to be director of Telrise Inc. of the U.S. and of Telrise (Cayman) Telecom Limited as from May 2013 and October 2013, respectively.

Note 4: Mr. Yin Yimin ceased to be director of Nanjing Zhongxing Software Company Limited, Xi'an Zhongxingxin Software Company Limited, Telrise Inc. of the U.S., Xi'an Zhongxing Software Company Limited and Telrise (Cayman) Telecom Limited as from, March 2013, April 2013, May 2013, June 2013 and October 2013, respectively.

Note 5: Mr. He Shiyou ceased to be director of Xi'an Zhongxing Software Company Limited, and chairman of 南京中興物聯科技有限公司 as from June 2013 and December 2013, respectively.

Note 6: Mr. Chen Naiwei was appointed independent non-executive director of Shanghai Kinlita Chemical Co., Ltd. in July 2013.

Note 7: Mr. Zhang Taifeng ceased to be chairman of Zhongxing Xinyu as from July 2013.

Note 8: 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, Shenzhen ZTE SEECOM Tech Co., Ltd., Shanghai ZTE Straw Communication Limited (上海中興思秸通訊有限公司), 深圳市訊聯智付網絡有限公司 and 福建海絲路科技有限公司 in February 2013, March 2013, June 2013, July 2013, July 2013 and November 2013, respectively.

Note 9: Ms. Wang Yan received remuneration from Shenzhen Zhongxing Micro Finance Co., Ltd.

Note 10: Mr. Cheng Lixin received remuneration from ZTE (USA), Inc.

(V) 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 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.

(VI) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE YEAR

1. Changes in Directors of the Company during the Year

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 as 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 commenced on 30 March 2013 and shall end on 29 March 2016. For details of the term of office of 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.

Mr. Timothy Alexander Steinert, Independent Non-executive Director of the Sixth Session of the Board of Directors, discontinued his office 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" considered and passed 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 as 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 vacancy. 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.

2. Changes in Supervisors of the Company during the Year

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 as 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 as 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.

3. Changes in Senior Management of the Company during the Year

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 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 commenced 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).

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

(VII) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY SUBSEQUENT TO THE END OF THE YEAR

At the Fourteenth Meeting of the Sixth Session of the Board of Directors held on 20 January 2014, the “Resolution of the Company on the Appointment and Removal of Senior Management Personnel of the Company” was considered and passed, whereby the appointments of each of Mr. Zeng Xuezhong and Mr. Zhao Xianming as Executive Vice President of the Company and the removal of each of them from the office of Senior Vice President of the Company; the appointments of each of Mr. Xiong Hui and Mr. Zhang Zhenhui as Senior Vice President of the Company; and the removal of Mr. He Shiyou from the office of Executive Vice President of the Company were approved. The new term of the senior management of the Company appointed as aforesaid commenced on the date on which the resolution was considered and passed at the said Board meeting and shall end upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016).

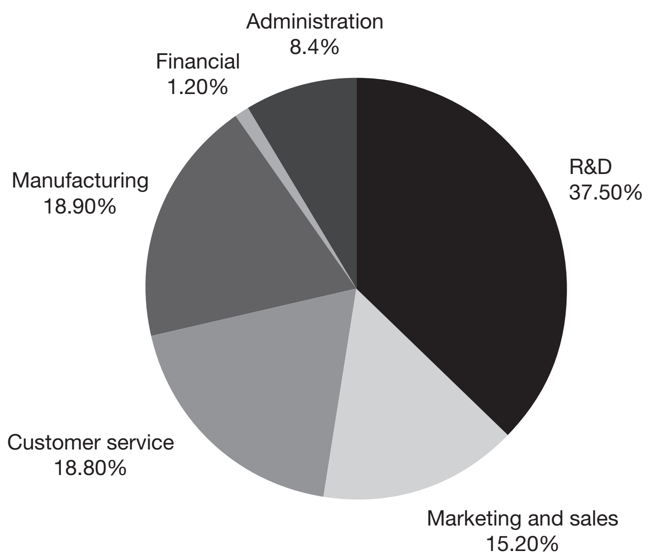
Directors, Supervisors, Senior Management and Employees

(VIII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 69,093 employees (Including 56,492 as employees of the parent company), with an average age of 32. There were 88 retired employees, including 54 retired employees in respect of which expenses were payable by the Company.

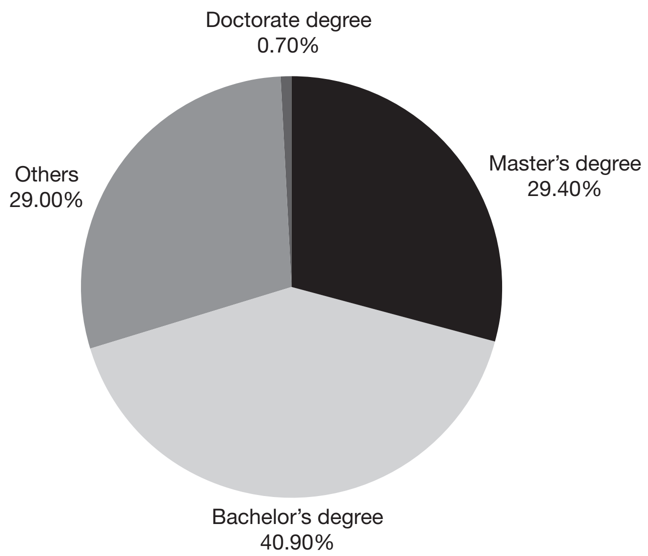
1. Classification by specialisation as follows:

Specialisation	Headcount	As an approximate percentage of total headcount
R&D	25,874	37.5%
Marketing and sales	10,524	15.2%
Customer service	12,993	18.8%
Manufacturing	13,042	18.9%
Financial	858	1.2%
Administration	5,802	8.4%
Total	**69,093**	**100.0%**



2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	457	0.7%
Master's degree	20,335	29.4%
Bachelor's degree	28,237	40.9%
Others	20,064	29.0%
Total	**69,093**	**100.0%**



3. Remuneration Package for Employees and Training Programme

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which the Group paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries.

Staff training provided by the Group includes induction training, skills training for specific positions, management training and training for management officers. After completion of induction training, new employees will receive general training that lasts for six months to one year depending on their positions. For in-service staff, the Group has established a training programme regime according to qualifications required for various positions. An in-service employee may conduct self-learning based on his/her aptitude assessment results and personal career planning and take part in group training on a selective basis. Management training comprises lectures, online learning and action-based learning on an integrated basis. For in-service management officers, the Group conducts reading classes, close-ended training and guided reading.

Corporate Governance Structure

The Company has prepared the "Corporate Governance Work Report" and the "Corporate Governance Report" in accordance with different requirements in form and content of PRC securities regulatory authorities and the Hong Kong Listing Rules, respectively. To avoid undue repetitions and to keep the presentation lucid, a cross-referencing approach has been adopted.

PART I: CORPORATE GOVERNANCE WORK REPORT PREPARED IN ACCORDANCE WITH PRC SECURITIES REGULATORY REQUIREMENTS

I. Status of Corporate Governance

The Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC.

During the reporting period, in accordance with the "Notice on the Publication of Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引通知》) jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the "Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen" (《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 the "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 the Shenzhen CSRC, the "Report on the 2013 Internal Control Work Plan" has been formulated and reviewed at the twenty-eighth meeting of the Audit Committee of the Fifth Session of the Board of Directors.

At the end of the reporting period, the status of corporate governance of the Company was in compliance with provisions of regulatory documents relating to the governance of listed companies published by the CSRC. The Company has not received any documents relating to administrative regulatory measures adopted by regulatory authorities against the Company.

(I) **Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status. Sufficient time is provided at general meetings of shareholders, which are convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or contact and communicate with the Company through its designated e-mail address and the investors' relations interactive platform of the Shenzhen Stock Exchange. The Company has also set up an "Investor Protection Promotion" column on its website to collect, compile, publish or cite information relating to investor protection.

(II) **Controlling shareholder and the listed company:** The Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without compromising the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles of Association. The staffing, assets, financial affairs, organisation and business of the controlling shareholder of the Company are independent from those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder of the Company was not engaged in any direct or indirect interference with the decision-making and business activities of the Company in circumvention of the general meeting.

(III) Directors and the Board: The Company appoints directors in strict compliance with the criteria and procedures set out its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable mix of expertise and acts in the best interests of the Company in good faith. The Company has formulated a set of rules of procedure for Board of Directors meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board of Directors Meetings. To optimise the corporate governance structure, three specialised committees — the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the convenors in each of these committees are Independent Non-executive Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

(IV) Supervisors and the Supervisory Committee: The Supervisors possess professional knowledge and work experience in management, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the Chief Executive Officer and other members of the senior management to safeguard the legal rights and interests of the Company and shareholders. The Company has formulated rules of procedure for the Supervisory Committee meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

(V) Performance appraisal and incentive mechanism: During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management's Remuneration and Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors has formulated the Share Option Incentive Scheme of the Company, which has been approved at the general meeting of the Company. The grant of share options was completed in October 2013 and registration was completed in November 2013.

(VI) Stakeholders: The Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

(VII) Information disclosure and transparency: The Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in strict compliance with relevant laws and regulations and the Articles of Association in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. There were no instances of controlling shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during the year

Corporate Governance Structure

(VIII) Rules and regulations established

No.	Title	Date of disclosure[Note]
1	Articles of Association	25 October 2013
2	Rules of Procedure of the General Meetings	20 May 2009
3	Rules of Procedure of the Board of Directors Meetings	26 May 2012
4	Rules of Procedure of the Supervisors' Meetings	7 April 2006
5	Working Rules for the Nomination Committee of the Board of Directors	27 April 2013
6	Working Rules for the Audit Committee of the Board of Directors	29 March 2012
7	Working Rules for the Remuneration and Evaluation Committee of the Board of Directors	29 March 2012
8	System of Derivative Investment Risk Control and Information Disclosure	28 April 2010
9	System for the Administration of External Information Users	9 April 2010
10	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
11	System of Registration of Owners of Inside Information	23 August 2012
12	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
13	System of Annual Report Duties for Independent Directors	14 March 2008
14	Guidelines for Work of the Audit Committee of the Board of Directors relating to the Annual Report	14 March 2008
15	Independent Director System	26 June 2007
16	Administrative Measures for Guest Reception and Promotion	26 June 2007
17	Administrative Rules of the Company on Issue Proceeds	26 June 2007
18	Internal Control System	26 June 2007
19	Administrative Rules for Information Disclosure	26 June 2007
20	Implementation Rules for the Dealings in Company's Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007

Note: The dates on which the latest revised versions of the above rules and regulations being posted on http://www.cninfo.com.cn.

II. Implementation of specific corporate governance activities and the establishment and implementation of the system of registration of owners of inside information

1. Implementation of specific corporate governance activities

In the reporting period, in accordance with the "Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" 《關於進一步落實上市公司現金分紅有關事項的通知》 issued by the CSRC and the "Notice on the Diligent Implementation of Pertinent Requirements of the Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" (《關於認真貫徹落實有關要求的通知》) issued by the Shenzhen CSRC, the Company adjusted its cash dividend distribution policy after taking into consideration its actual conditions, formulated a deliberation report on the planning of shareholders' return, and amended the Articles of Association relating to the cash dividend distribution policy. For details, please refer to the section headed "Corporate Governance Structure (II) 1. Implementation of specific corporate governance activities" in the 2012 Annual Report.

2. *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 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 year, 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 year 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.

III. Information on general meetings convened

At the First Extraordinary General Meeting of 2013 of the Company convened on-site on 7 March 2013, the "Resolution of the Company on the Re-election of the Board of Directors and Election of Directors of the Sixth Session of the Board of Directors", "Resolution of the Company on the Re-election of the Supervisory Committee and Election of Shareholders' Representative Supervisors of the Sixth Session of the Supervisory Committee" and "Resolution on the Amendment of Certain Clauses of the Articles of Association" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2013 of ZTE Corporation" published by the Company on 8 March 2013 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

At the 2012 Annual General Meeting of the Company convened on-site on 30 May 2013, the "Financial statements for the year ended 31 December 2012 audited by the PRC and Hong Kong auditors", "Report of the Board of Directors of the Company for the year ended 31 December 2012", "Report of the Supervisory Committee of the Company for the year ended 31 December 2012", "Report of the President of the Company for the year ended 31 December 2012", "Final financial accounts of the Company for the year ended 31 December 2012", "Profit distribution proposal of the Company for the year ended 31 December 2012", "Resolutions on the proposed applications by the Company for composite credit facilities", "Resolutions on the appointment of the PRC auditors and the Hong Kong auditors of the Company for the year ended 31 December 2013", "Resolution on the application for investment limits in derivative products of the Company in 2013", "Resolution on the General Mandate for 2013" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the 2012 Annual General Meeting of ZTE Corporation" published by the Company on 31 May 2013 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

At the Second Extraordinary General Meeting of 2013 of the Company held on 28 June 2013 by way of a combination of on-site voting, online voting and voting by Independent Non-executive Directors as proxies, the "Resolution on the Repurchase and Cancellation of Restricted Shares Not Qualified for Unlocking", "Resolution on the Amendment of Relevant Clauses of the Articles of Association" and "Resolution on the election of Independent Non-executive Director" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of The Second Extraordinary General Meeting of 2013 of ZTE Corporation" published by the Company on 29 June 2013 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

Corporate Governance Structure

At the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 held by way of a combination of on-site voting, online voting and voting by Independent Non-executive Directors as proxies and the First H Shareholders' Class Meeting of 2013 held by way of a combination of on-site voting and voting by Independent Non-executive Directors as proxies by the Company on 15 October 2013, the "Resolution on ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (the "Scheme") and its summary", "Resolution on ZTE Corporation Share Option Incentive Scheme Performance Appraisal System" and "Resolution on a mandate granted to the Board of Directors by the General Meeting of ZTE Corporation to deal with matters pertaining to the Scheme" were considered and approved. At the Third Extraordinary General Meeting of 2013, the "Resolution on the waiver of rights" and the "Resolution on the provision of performance guarantee in respect of P.T. ZTE Indonesia, a wholly-owned subsidiary" were further considered and approved. For details of the resolutions, please refer to the "Announcement of Resolutions of the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of ZTE Corporation" published by the Company on 16 October 2013 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

IV. Performance of the Independent Non-executive Directors

During the year, the Independent Non-executive Directors played a significant role in optimising the corporate governance structure of the Company and protecting the interests of minority shareholders. During the year, the Independent Non-executive Directors of the Company raised no objections on the resolutions passed by the Board of Directors meetings and other matters of the Company. In relation to important matters on which they were required to give independent opinions (including connected transactions, third-party guarantees and third-party investments), the Independent Non-executive Directors have diligently reviewed the matters concerned and have issued written independent opinions. The Independent Non-executive Directors provided valuable and professional recommendations on major decisions by the Company, improving the rationality and objectiveness of the Company's decisions.

Attendance of Independent Non-executive Directors of the Company at Board of Directors meetings and general meetings in 2013 was as follows:

Independent Non-executive Directors	Number of Board meetings required to attend	Number of personal attendance (including video conference)	Number of attendance via communications	Attendance by proxy	Absence	Failure to personally attend at two consecutive meetings	Attendance at general meetings [Note 3]
Qu Xiaohui	15	5	9	1	0	No	6
Wei Wei	15	1	9	5	0	Yes [Note 2]	1
Chen Naiwei	15	4	9	2	0	No	4
Tan Zhenhui	15	5	9	1	0	No	6
Timothy Alexander Steinert [Note 1]	6	3	2	0	1	No	2
Richard Xike Zhang [Note 1]	9	3	6	0	0	No	3

Note 1: Mr. Timothy Alexander Steinert (石義德), Independent Non-executive Director of the Sixth Session of the Board of Directors discontinued his office as Independent Non-executive Director of the Company after 29 June 2013 due to his personal work arrangements as general counsel of Alibaba Group Holding Limited. Mr. Richard Xike Zhang was elected as Independent Non-executive Director of the Sixth Session of the Board of Directors of the Company following nomination at the Fourth Meeting of the Sixth Session of the Board of Directors and consideration and approval at the Second Extraordinary General Meeting of 2013 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: Independent Non-executive Director Mr. Wei Wei was not able to attend the Sixth Meeting and the Seventh Meeting of the Sixth Session of the Board of Directors due to work reasons and appointed in writing Independent Non-executive Director Mr. Tan Zhenhui to vote on his behalf at both meetings.

Note 3: The Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 held on 15 October 2013 are counted as 3 general meetings of the Company. Therefore the Company held a total of 6 general meetings in 2013.

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2013 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 27 March 2014.

V. Performance of principal duties by specialised committees of the Board of Directors

During the year, the specialist committees under the Board of Directors of the Company convened meetings and performed their duties in strict accordance with the Articles of Association, Rules of Procedure of the Board of Directors Meetings and their respective working rules, playing an important role in ensuring scientific decision making at the Board of Directors as they operated in compliance with the laws to furnish opinions and recommendations in respect of matters such as the Copmany's financial information and is disclosure, internal audit system and its implementation, internal control system and risk management system, material connected transactions, nomination of candidates for Directors and senior management and management of remuneration and performance of Directors and senior management.

1. Performance of principal duties by the Audit Committee

During the year, the Audit Committee diligently performed its duties in accordance with the "Rules of the Audit Committee" and the "Guidelines for Work of the Audit Committee relating to the Annual Report" and performed duties such as the vetting of the annual auditing and supervision and inspection of the building and improvement of the Company's internal controls.

(1) Issue of three review opinions on the 2013 financial report of the Company

Members of the Audit Committee boast rich expertise and experience in financial operations. During the year, the Audit Committee issued three review opinions on the annual financial report in accordance with relevant requirements of the CSRC.

The Audit Committee first examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2012; key financial indicators calculated on the basis of data from the 2013 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2012. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2013 annual report was in compliance with the accounting standards for business enterprises and their practice notes.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2013. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2013 and approved the submission of the report for consideration by the Board of Directors.

Corporate Governance Structure

(2) Supervision of the audit work of the accountants' firms

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year in January 2014. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants' firms, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants' firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns of the accountants. Such concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants' firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

(3) Summary report on the 2013 audit work performed by the accountants' firms

The PRC and Hong Kong auditors of the Company performed auditing on the Company's annual report during the period from October 2013 to March 2014. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the annual audit plan, and issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for consideration. The PRC and Hong Kong auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence after nearly 6 months of auditing work. The audit reports by PRC and Hong Kong auditors with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and prudence in the course of audit and completed the audit of the Company's 2013 financial report and internal control audit in a satisfactory manner.

(4) Recommendations on the appointment of PRC and Hong Kong auditors

Based on cooperation with Ernst & Young Hua Ming LLP and Ernst & Young over the years, the Audit Committee was of the view that the PRC and Hong Kong auditors of the Company are major accountants' firms with high-calibre professional teams, full qualifications for the practice, rich practical experience and stringent internal management. As such, the Audit Committee recommends the Board of Directors to re-appoint Ernst & Young Hua Ming LLP as PRC auditors and Ernst & Young as Hong Kong auditors of the Company for the financial reports of 2014, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2014.

(5) Supervision of measures to improve the Company's internal control system

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Internal Control and Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee actively supports the Internal Control and Audit Department to perform its audit functions in accordance with the law and fulfill the supervisory role of the audit function. During the year, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit, reviewed the derivative investments of the Company and made recommendations in respect of risk control in the Company's derivative investments.

2. Performance of principal duties by the Remuneration and Evaluation Committee

Examination opinion of the Remuneration and Evaluation Committee on the disclosed remuneration of Directors, Supervisors and senior management of the Company:

The Remuneration and Evaluation Committee has conducted detailed examination of disclosed remuneration of Directors, Supervisors and senior management of the Company, and is of the view that the procedure for determining the remuneration of Directors, Supervisors and senior management of the Company is in compliance with relevant provisions, and that the remuneration of Directors, Supervisors and senior management of the Company disclosed in the 2013 annual report of the Company is true and accurate.

3. Performance of principal duties by the Nomination Committee

During the year, the principal work of the Nomination Committee included the consideration of resolutions on the nomination of candidates for Directors and the employment and dismissal of senior management personnel, and the resolution on the amendment of certain clauses of the "Working Rules of the Nomination Committee".

VI. Performance of duties by the Supervisory Committee

Having conducted diligent supervision and inspection in relation to matters such as the legal compliance of the Company's operation, the financial conditions of the Company, acquisition/disposal of assets by the Company and connected transactions during the year in strict accordance with the provisions of pertinent laws and regulations and the Articles of Association, the Supervisory Committee of the Company does not express any dissent as a result of its supervision over these matters.

VII. The Company's independence from the controlling shareholder and integrity in business, staffing, assets, organisation and finance

The Company is independent of its controlling shareholder Zhongxingxin in respect of the staff, assets, finance, organisation and business. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to **staffing**, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

With respect to **assets**, the Company's assets are fully independent and the Company has clear ownership of its assets. The Company has independent production systems, supplementary production systems and ancillary facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to **finance**, the Company has an independent financial department. It has established an independent accounting and auditing system and a financial management system, and maintains an independent bank account.

With respect to **business**, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to **organisation**, the Board of Directors, the Supervisory Committee and other internal organizations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

VIII. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is mainly responsible for formulating and examining proposals for the management of remuneration and performance of the Directors and senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal for implementation after consideration and approval by the Board of Directors.

PART II: CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF THE HONG KONG LISTING RULES

The Company is dedicated to improving its corporate governance standards and strives to increase its enterprise value by adopting stringent corporate governance practices, with a view to ensuring sustainable development, fulfilling corporate responsibilities as a listed company, and maximising value for its shareholders in the long term.

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

I. Shareholders' Rights and Investors' Relations

(I) Shareholders' rights

The Company adopts relevant measures to facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with relevant laws and regulations of the PRC or otherwise and in accordance with pertinent requirements under the Articles of Association of the Company.

Details of the shareholding structure of the Company are set out in the section of this report headed "Changes in Shareholdings and Information of Shareholders".

The Company has always maintained effective communications with its shareholders by reporting the Group's results and operations to shareholders through numerous official channels, such as disclosures in annual reports, interim reports and quarterly reports. Shareholders may also express their views or exercise their rights through communication channels set up by the Company, such as the investors' hotline and e-mail contacts. The Group's website is updated regularly to provide investors and the public with timely information of the Group's latest developments. Shareholders may also submit their enquiries and questions to the Board of Directors in writing through the Company Secretary. For the contact information of the Company Secretary, please refer to the section headed "Corporate Information" in this report.

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details, please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details, please refer to Article 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company shall be required to give explanations in response to queries and suggestions of shareholders. In 2013, the Company convened 6 general meetings. For details, please refer to the section headed "III Information on general meetings convened" in Part I of this chapter.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor reception. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members will attend the meeting on a best effort basis and engage in direct dialogue with the shareholders during the arranged Q&A sessions. Details of the Company's reception of investors during 2013 are set out in the section of this report headed "Report of Board of Directors (II) 19. Reception of Analysts, Communications and Press Interviews of the Company During the Year".

In the coming year, the Company will further enhance communications with investors with the hope that they will offer more support and concern for the Company on the back of better understanding.

In accordance with the "Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" 《關於進一步落實上市公司現金分紅有關事項的通知》 issued by the CSRC and the "Notice on the Diligent Implementation of Pertinent Requirements of the Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" (《關於認真貫徹落實〈關於進一步落實上市公司現金分紅有關事項的通知〉有關要求的通知》) issued by the Shenzhen CSRC, the Company adjusted its cash dividend distribution policy after taking into consideration its actual conditions, formulated a deliberation report on the planning of shareholders' return, and amended the Articles of Association relating to the cash dividend distribution policy mainly by providing for specific conditions for dividend distribution by way of cash and bonus shares, the specific conditions, decision-making procedures and mechanism for adjusting stated profit distribution policy (the policy of cash dividend in particular), and measures adopted for sufficient consideration of the opinions of independent non-executive directors and minority shareholders when formulating the profit distribution policies and plans. Such amendments were considered and approved at the First Extraordinary General Meeting of 2013 of the Company convened on 7 March 2013. For details, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2013" published by the on the same date.

The repurchase and cancellation by the Company of a total of 2,536,742 shares not qualifying for unlocking at the cost paid by Scheme Participants for the subscription of Subject Shares in accordance with the Phase I Share Incentive Scheme and the amendment of relevant clauses on registered capital in the Articles of Association were considered and approved at the Second Extraordinary General Meeting of 2013 convened on 28 June 2013. For details, please refer to the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2013" published by the on the same date.

Corporate Governance Structure

II. Board of Directors

Members of the Board of Directors seek to act in the best interests of the Company, providing leadership and supervision over the Group and assuming joint and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

(I) Functions of the Board

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational direction and investment plans of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor the business and financial performance of the Company and formulate the annual financial budgets and final accounts of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2013. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board

The Board of Directors of the Company comprises 14 Directors, including 1 Chairman and 2 Vice Chairmen. Except for the Chief Executive Officer (Mr. Shi Lirong) and 2 Executive Directors (Mr. Yin Yimin and Mr. He Shiyou), all Directors are Non-executive Directors independent of the management, including 5 Independent Non-executive Directors, namely Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Richard Xike Zhang, who possess academic and professional qualifications as well as substantial experience in the telecommunications, financial, legal and management sectors and who have influence in relevant sectors and are proactive in the performance of their duties, and 6 Non-executive Directors, namely Mr. Hou Weigui (Chairman), Mr. Zhang Jianheng, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Zhang Junchao and Mr. Dong Lianbo, who have extensive business and management experience. Their presence enables stringent review and control of the management procedures and ensures that the interests of shareholders as a whole, including minority shareholders, are safeguarded. The profile and terms of office of the Directors are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees". The composition of the Board of Directors was in compliance with the provisions of Rule 3.10(1) and (2) and Rule 3.10A of the Hong Kong Listing Rules.

The Company confirms that it has received annual written confirmations of independence from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules. In accordance with the guidelines on independence set out in the Hong Kong Listing Rules, the Company is of the opinion that all the Independent Non-executive Directors are independent persons.

There were no financial, business, family or other significant/relevant connections among members of the Board of Directors of the Company.

(III) Term of office, appointment and removal of Directors

Each Director (including Non-executive Director) is appointed for a term of 3 years, which may be extended upon expiry. The term of office of each Independent Non-executive Director must not be longer than 6 years. The term of office of Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 30 March 2013 and shall end on 21 July 2015. The term of office of Mr. Timothy Alexander Steinert as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 30 March 2013 and ended on 29 June 2013. The term of office of Mr. Richard Xike Zhang as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 30 June 2013 and shall end on 29 March 2016. Other than the above, the term of office of all Directors of the Sixth Session of the Company commenced on 30 March 2013 and shall end on 29 March 2016.

The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company for a term of 3 years. Details of changes in the Directors during the year are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees — (VI) Changes in Directors, Supervisors and senior management of the Company during the year."

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2013, the Board of Directors of the Company convened 15 meetings. In 2013, the Company convened 6 general meetings. Attendance of Directors at the meetings of the Board of Directors and the general meetings in 2013 was set out in the following table:

Number of meetings		Board meetings 15		General meetings 6 Note 3	
Directors	**Attendance in person**	**Attendance by proxy**	**Attendance** Note 1	**Attendance in person**	**Attendance** Note 1
Chairman and Non-executive Director					
Hou Weigui	12	3	12/15	5	5/6
Vice Chairman and Non-executive Director					
Zhang Jianheng	13	2	13/15	0	0/6
Xie Weiliang	12	3	12/15	6	6/6
Non-executive Director					
Wang Zhanchen	15	0	15/15	5	5/6
Zhang Junchao	12	3	12/15	5	5/6
Dong Lianbo	14	1	14/15	6	6/6
Executive Director					
Shi Lirong	14	1	14/15	6	6/6
Yin Yimin	15	0	15/15	2	2/6
He Shiyou	15	0	15/15	5	5/6
Independent Non-executive Director					
Qu Xiaohui	14	1	14/15	6	6/6
Wei Wei	10	5	10/15	1	1/6
Chen Naiwei	13	2	13/15	4	4/6
Tan Zhenhui	14	1	14/15	6	6/6
Timothy Alexander Steinert (resigned with effect from 29 June 2013)	5	0	5/6 Note 2	2	2/3
Richard Xike Zhang (appointed with effect from 30 June 2013)	9	0	9/9	3	3/3

Corporate Governance Structure

Note 1: Attendance by proxy was not counted for the percentage of attendance. The percentage of attendance of Directors resigning or being appointed during the year was arrived at on the basis of Board of Directors meetings and general meetings held during the period while they were in office.

Note 2: Because of work reasons, Mr. Timothy Alexander Steinert, Independent Non-executive Director, did not vote in person or appoint another Independent Non-executive Director to vote on his behalf in respect of the resolutions proposed at the Third Meeting of the Sixth Session of the Board of Directors held on 8 May 2013.

Note 3: The Third Extraordinary General Meeting of 2013, First A Shareholders' Class Meeting of 2013 and First H Shareholders' Class Meeting of 2013 held on 15 October 2013 are counted as 3 general meetings. Therefore the Company held a total of 6 general meetings in 2013.

2. As stipulated by the Articles of Association, all Directors should be given 14 days' notice prior to the commencement of a regular Board of Directors meeting and 3 days' notice prior to the commencement of an interim Board of Directors meeting. The secretary to the Board of Directors should provide details of a regular Board of Directors meeting (including information in relation to each of the meetings of specialised committees of the Board of Directors) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

   As for interim Board of Directors meetings which are convened by means of voting by communication at the request of the Company's management, information about the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board of Directors would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist Directors to ensure that the procedures of the Board of Directors is in compliance with the applicable regulations, such as the Company Law, the Articles of Association and the Hong Kong Listing Rules.

3. Minutes of each Board of Directors meetings should be signed by the attending Directors and person taking the minutes, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.

4. Where any matters (including connected transactions) to be considered by the Board of Directors are deemed to involve a material conflict of interest, any Directors who are by any means connected with such transactions would abstain from voting.

(V) Respective scopes of delegation and duties of the Board of Directors and the management

The scopes of delegation and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 160 of the Articles of Association, summary of which can be found in the section headed "II (I) Functions of the Board" under Part II of this chapter. The management should be responsible for day-to-day operation and management and be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialised committees in a timely manner to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Company.

(VI) Chairman and the Chief Executive Officer

The offices of the Chairman and that of the Chief Executive Officer of the Company are two distinctively separated positions, assumed by Mr. Hou Weigui and Mr. Shi Lirong, respectively. Their respective duties and functions are clearly defined in the Articles of Association. Duties of the Chairman and the Chief Executive Officer of the Company are set forth in Articles 164 and 181 of the Articles of Association, respectively.

The Chairman of the Company is responsible for the operation of the Board of Directors and advising the Board of Directors and the Group on the overall strategy and policies of the Company so as to ensure that all Directors act in the best interest of the shareholders.

The Chief Executive Officer of the Company is responsible for leading the management team of the Group to take charge of the day-to-day management and operation of the Company according to the objectives and directions set up by the Board of Directors and the internal control policy and procedure of the Company.

The Chief Executive Officer of the Company maintains ongoing communications with the Chairman and all Directors and report his work to the Board of Directors regularly to ensure that all Directors are well informed of any material business development.

(VII) Measures Taken to Ensure the Performance of Duties by Directors

1. The Company would supply the Director with all the relevant and necessary information when the Director takes office and thereafter will supply, on a regular basis, information that would help the Directors understand the business and operating conditions of the Company. The Company would subsequently provide the Directors with the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange for the Directors to attend relevant continuing professional training courses at the cost of the Company, in order to assist them to fully understand their duties as a director under the requirements of relevant laws and regulations, such as the Hong Kong Listing Rules, as well as gaining comprehensive insight in the Company's operation in a timely manner. To ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organize on-site visits and communications with the Chief Financial Officer and Auditor for the Independent Nonexecutive Directors.

2. According to records maintained by the Company, trainings received by the Directors of the Company in 2013 are as follows, focusing on the roles, functions and duties of directors of listed companies:

Contents	**Laws, regulations and rules**	
Directors	**Reading materials**	**Attendance at talks or seminars**
Chairman and Non-executive Director		
Hou Weigui	√	—
Vice Chairman and Non-executive Director		
Zhang Jianheng	√	√
Xie Weiliang	√	—
Non-executive Director		
Wang Zhanchen	√	√
Zhang Junchao	√	—
Dong Lianbo	√	√
Executive Director		
Shi Lirong	√	√
Yin Yimin	√	√
He Shiyou	√	√
Independent Non-executive Director		
Qu Xiaohui	√	√
Wei Wei	√	√
Chen Naiwei	√	√
Tan Zhenhui	√	√
Timothy Alexander Steinert (resigned with effect from 29 June 2013)	√	√
Richard Xike Zhang (appointed with effect from 30 June 2013)	√	√

3. Whenever the Directors of the Company are required to provide an opinion in relation to matters including provision of third party guarantees, appropriation of funds and connected transactions, the Company would engage relevant independent professional bodies, such as auditors, independent financial advisors and lawyers, to provide independent and professional advice so as to assist the Directors in performing their duties.

4. In respect of potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management and with the mandate of the general meeting, at the Seventh Meeting of the Sixth Session of the Board of Directors held on 21 August 2013, the "Resolution on Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the Company's contract with Chartis Insurance Company China Limited, Shenzhen Branch was extended for one year with a compensation limit of RMB100 million per annum.

III. Specialised Committees under the Board

There are 3 specialised committees under the Board of Directors, namely the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. On 2 April 2013, the Sixth Session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected at the First Meeting of the Sixth Session of the Board of Directors. On 1 July 2013, the resolution on the election of a new member as replacement to the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors was considered and approved at the Fifth Meeting of the Sixth Session of the Board of Directors, whereby Mr. Richard Xike Zhang, Independent Non-executive Director, was elected a new member as replacement to the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors. Specific working rules have been formulated for each of the specialised committees, stipulating, among other things, the duties and powers of these committees. The working rules of each of the specialised committees have been posted on the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialised committees is conducted in accordance with the provisions of the "Working Rules for the Remuneration and Evaluation Committee", "Working Rules for the Nomination Committee" and "Working Rules for the Audit Committee", and is implemented by reference to the statutory procedures for meetings of the Board of Directors.

(I) The Remuneration and Evaluation Committee

1. The role and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the management policies and structures for the remuneration and performance of Directors and senior management laid down by the Board of Directors.

2. Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Non-executive Directors and 2 Non-executive Directors. As at the end of the reporting period, the convenor of the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors is Mr. Wei Wei, Independent Non-executive Director. Members of the committee include Mr. Hou Weigui, Mr. Zhang Jianheng, Ms. Qu Xiaohui, Mr. Tan Zhenhui and Mr. Richard Xike Zhang. The Remuneration and Evaluation Committee held 9 meetings in 2013. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Wei Wei	5/9	4/9
Hou Weigui	7/9	2/9
Zhang Jianheng	6/9	3/9
Qu Xiaohui	8/9	1/9
Tan Zhenhui	9/9	0/9
Timothy Alexander Steinert (resigned with effect from 29 June 2013)	4/5	0/5[Note]
Richard Xike Zhang (appointed with effect from 1 July 2013)	4/4	0/4

Note: Mr. Timothy Alexander Steinert, Independent Non-executive Director, did not vote in person or appoint another Independent Non-executive Director to vote on his behalf in respect of the resolutions proposed at the Third Meeting of the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors held on 8 May 2013, due to work reasons.

3. The decision-making process and criteria for determining remuneration for Directors and senior management

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the work performance of the Directors of the Company as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting, namely in the manner set out in Code B.1.2(c)(ii) of Appendix 14 to the Hong Kong Listing Rules.

The Remuneration and Evaluation Committee reviews remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals for implementation after consideration and approval by the Board of Directors.

4. Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 9 meetings in 2013 to:

a) consider the preliminary drafts of the Company's evaluation and incentive plans for the President, Executive Vice Presidents and Senior Vice Presidents of 2013;

b) consider the resolution on the performance of and annual bonus amount for the President of the Company for 2012, and submit the same to the Board of Directors for consideration and approval;

c) consider the resolution on the performance of and annual bonus amount for other senior management personnel of the Company for 2012, and submit the same to the Board of Directors for consideration and approval;

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d) consider the resolution on the principles for determining the 2012 annual bonus amount for the Chairman of the Board of Directors and the Chairman of the Supervisory Committee;

e) consider the report on the Company's implementation of remuneration matters in 2012;

f) consider the report on the Company's remuneration budget in 2013;

g) consider the resolution on Performance Management Measures for the President of the Company for 2013, and submit the same to the Board of Directors for consideration and approval;

h) consider the resolution on Performance Management Measures for other senior management personnel of the Company for 2013, and submit the same to the Board of Directors for consideration and approval;

i) consider the resolution on the election of the convenor of the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors of the Company;

j) consider the resolution on Performance Management Measures for newly appointed senior management personnel of the Company for 2013 and submit the same to the Board of Directors for consideration and approval;

k) consider the resolution on the repurchase and cancellation of restricted shares not qualifying for unlocking and submit the same to the Board of Directors for consideration and approval;

l) consider the resolution on the Share Option Incentive Scheme (Draft) and its summary of the Company and submit the same to the Board of Directors for consideration and approval;

m) consider the resolution on the Share Option Incentive Scheme Performance Appraisal System of the Company and submit the same to the Board of Directors for consideration and approval;

n) consider the resolution of the Company on the renewal of "Directors', Supervisors' and senior management's liability insurance," and submit the same to the Board of Directors for consideration and approval;

o) consider the resolution on the Share Option Incentive Scheme (Revised Draft) and its summary of the Company and submit the same to the Board of Directors for consideration and approval;

p) consider the resolution on matters pertaining to the grant of share options under the Share Option Incentive Scheme of the Company and submit the same to the Board of Directors for consideration and approval; and

q) consider the resolution on adjustment to the list of Participants and the number of share options to be granted under the Share Option Incentive Scheme of the Company and submit the same to the Board of Directors for consideration and approval.

(II) The Nomination Committee

1. The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles of Association and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors for its approval, and implements the decisions made by the Board of Directors and general meetings (if applicable).

2. Members and Meetings of the Nomination Committee

The Nomination Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. As at the end of the reporting period, the convenor of the Nomination Committee of the Sixth Session of the Board of Directors is Mr. Tan Zhenhui, Independent Non-executive Director, and members of the committee include Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Richard Xike Zhang.

The Nomination Committee held 4 meetings in 2013. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Tan Zhenhui	4/4	0/4
Hou Weigui	3/4	1/4
Xie Weiliang	3/4	1/4
Wang Zhanchen	4/4	0/4
Wei Wei	2/4	2/4
Chen Naiwei	3/4	1/4
Timothy Alexander Steinert (resigned with effect from 29 June 2013)	4/4	0/4
Richard Xike Zhang (appointed with effect from 1 July 2013)	0/0	0/0

3. The criteria and procedures for the nomination and recommendation of Directors and senior management and the board diversity policy

(1) The Nomination Committee conducts extensive searches for candidates for Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the potential candidates, a meeting of the Nomination Committee will be convened to examine the qualifications of the initial nominees based on the conditions for appointment of Directors and senior management. Prior to the election of new Directors, the Nomination Committee will propose candidates for Directors to the Board of Directors and furnish the Board of Directors with relevant information. Prior to the appointment of any new senior management personnel, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management personnel and furnish the Board of Directors with relevant information.

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(2) The Nomination Committee shall recommend candidates for Directors and new senior management appointments to the Board of the Directors in accordance with qualifications for directors and senior management set out in the Company Law, Guiding Opinion of the China Securities Regulatory Commission on the Establishment of the Independent Director System at Listed Companies (《中國證監會關於在上市公司建立獨立董事制度的指導意見》), Measures of the Shenzhen Stock Exchange for the Registration of Independent Directors (《深圳證券交易所獨立董事備案辦法》), Articles of Association and the Rules of Procedures of the Board of Directors, etc.

(3) The Nomination Committee has formulated a Board Diversity Policy, which has been set out in the Working Rules of the Nomination Committee. The Board Diversity Policy primarily states that the Company will consider board diversity from several perspectives when determining the composition of the Board of Directors, including but not limited to age, cultural and education background, professional experience, skills and know-how. All appointments of the Board of Directors are based on meritocracy, and candidates are being considered under objective taking into account the benefits of board diversity. The composition of the Board of Directors of the Company is basically in line with the diversity principle. For details, please refer to "II (II) Composition of the Board" in Part II of this chapter.

4. Work of the Nomination Committee during the year

In 2013, the Nomination Committee held 4 meetings mainly to:

a) consider the resolution on the proposed candidates for directors of the Sixth Session of the Board of Directors, and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

b) consider the proposal for personnel reshuffling submitted to the Nomination Committee by the Company and approve the termination of the appointment 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 and submit the same to the Board of Directors of the Company for consideration and approval;

c) consider the resolution on the election of the convenor of the Nomination Committee of the Sixth Session of the Board of Directors and elect Mr. Tan Zhenhui as convenor of the Nomination Committee of the Sixth Session of the Board of Directors;

d) consider the resolution on the proposed appointment of new senior management personnel of the Company and submit the same to the Board of Directors of the Company for consideration and approval;

e) consider the resolution on the formulation of the board diversity policy and the amendment of relevant clauses of the "Working Rules for the Nomination Committee" and submit the same to the Board of Directors of the Company for consideration and approval; and

f) consider the resolution on the proposed nomination of candidates for Independent Non-executive Directors and nominate Mr. Richard Xike Zhang as candidate for Independent Non-executive Director, and submit the same to the Board of Directors and general meeting of the Company for consideration and approval.

(III) The Audit Committee

1. The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and removal, remuneration and terms of engagement of external auditors, supervising the implementation of the Company's internal audit system, reviewing the financial information of the Company and its disclosure (including the inspection of the completeness of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports, as well as the review of significant opinions on financial reporting contained in the statements and reports), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

2. Members and Meetings of the Audit Committee

The Audit Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. As at the end of the reporting period, the convenor of the Audit Committee of the Sixth Session of the Board of Directors is Ms. Qu Xiaohui, Independent Non-executive Director, and members of the committee include Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee held 7 meetings in 2013. Attendance at the meetings was as follows:

Members of the Audit Committee	**Attendance in person**	**Attendance by proxy**
Qu Xiaohui	5/7	2/7
Hou Weigui	4/7	3/7
Zhang Junchao	4/7	3/7
Dong Lianbo	7/7	0/7
Wei Wei	3/7	4/7
Chen Naiwei	6/7	1/7
Tan Zhenhui	6/7	1/7

3. Work of the Audit Committee during the year

In 2013, the Audit Committee held 7 meetings mainly to:

a) consider the financial report of the Company for the year ended 31 December 2012, and submit the same to the Board of Directors of the Company for consideration and approval;

b) consider the application of Ernst & Young Hua Ming LLP to replace its undersigning certified public accountant and submit the same to the Board of Directors of the Company for consideration and approval;

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c) receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2012;

d) consider the report of the Company on the implementation of internal control work plan for 2012;

e) consider whether actions taken by the management in litigations in which the Company or any members of the Group is a defendant are appropriate;

f) receive the report of Ernst & Young on the financial audit of the Company in 2012;

g) receive the report of Ernst & Young on the internal control audit of the Company in 2012;

h) receive the explanatory statement of Ernst & Young on the 2012 continuing connected transactions of the Company;

i) consider the summary report on the audit of the Company performed by the PRC and Hong Kong auditors in 2012;

j) consider the audit fees payable to the PRC and Hong Kong auditors for the year ended 31 December 2012 and submit the same to the Board of Directors of the Company for consideration and approval;

k) consider resolutions on the appointment of the PRC and Hong Kong auditors of the Company for 2013 and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

l) consider the resolution on the write-off of bad debts of the Company for the second half of 2012 and submit the same to the Board of Directors of the Company for consideration and approval;

m) consider the report of the Company on derivative investments in 2012;

n) consider the resolution on the application for investment limits in derivative products of the Company for 2013 and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

o) consider the self-assessment report on internal control of the Company for the year ended 31 December 2012;

p) consider the internal audit and internal control testing reports of the Company for the year ended 31 December 2012;

q) consider the report of the Company on the internal control work plan of 2013;

r) consider the resolution on the election of the convenor of the Audit Committee of the Sixth Session of the Board of Directors and elect Ms. Qu Xiaohui as the convenor of the Audit Committee of the Sixth Session of the Board of Directors;

s) consider the report on the preparation of the Company's First Quarterly Report of 2013 and submit the same to the Board of Directors of the Company for consideration and approval;

t) consider the report of the Company on derivative investments in the first quarter of 2013;

u) consider the report of the Company on the progress of introducing internal control in 2013;

v) consider the resolution of the Company on the continuing connected transaction relating to the Property Lease Framework Agreement and Equipment Lease Framework Agreement entered into with Zhongxing Hetai, and submit the same to the Board of Directors of the Company for consideration and approval;

w) consider the resolution of the Company on the continuing connected transaction relating to the Hotel Service Purchase Framework Agreement entered into with Zhongxing Hetai, and submit the same to the Board of Directors of the Company for consideration and approval;

x) consider the interim financial report of the Company for the six months ended 30 June 2013 and submit the same to the Board of Directors of the Company for consideration and approval;

y) receive the summary report of Ernst & Young on its advisory work for the preparation of the Company's interim financial report for the first half of 2013;

z) consider the resolution on the write-off of bad debts of the Company for the first half of 2013 and submit the same to the Board of Directors of the Company for consideration and approval;

aa) consider the internal control work report of the Company for the six months ended 30 June 2013;

bb) consider the reports on internal audit and internal control testing of the Company for the six months ended 30 June 2013;

cc) review the report of the Company on derivative investments in the first six months of 2013;

dd) consider the report on the preparation of the Company's Third Quarterly Report of 2013 and submit the same to the Board of Directors of the Company for consideration and approval;

ee) review the report of the Company on derivative investments in the first three quarters of 2013; and

ff) review the report of the Company on the implementation of internal control plan for the third quarter of 2013.

Corporate Governance Structure

(IV) Corporate governance functions

The Board of Directors is charged with duties in corporate governance, procuring the management to establish a compliant organisational structure and regime and to abide by the Corporate Governance Code and other laws and regulations in day-to-day management. During the reporting period, the Board of Directors examined the Company's compliance with corporate governance policies and codes. In accordance with the Articles of Association and Rules of Procedure of the Board of Directors Meetings, the Board of Directors is responsible for the following corporate governance functions:

1. Formulating and reviewing the corporate governance policies and practices of the Company;

2. Reviewing and monitoring training and continuous professional development of the Directors and senior management;

3. Reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory provisions;

4. Formulating, reviewing and monitoring the code of conduct for employees and Directors; and

5. Reviewing the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures in its corporate governance report.

IV. Remuneration and Interests of Directors, Supervisors and the President

(I) Remuneration

Please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees — (II) Changes in the shareholdings of the Company's Directors, Supervisors and senior management and annual remuneration" for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for 2013 are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1. Service contracts and contractual interests of the Directors and Supervisors

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any Director or Supervisor.

2. Interests of Directors and Supervisors in contracts

None of the Directors and Supervisors of the Company was materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2013.

3. Interests of Directors, Supervisors and Chief Executive Officer in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2013 are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees — (II) Changes in the shareholdings of the Company's Directors, Supervisors and senior management and annual remuneration."

Save as disclosed above, as at 31 December 2013, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules.

As at 31 December 2013, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

4. Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company has adopted the Model Code. Upon due enquiry with all Directors and Supervisors, the Company is not aware of any information that reasonably indicates non-compliance with code provisions set out in the Model Code by Director or Supervisor during the reporting period.

V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the Company for 2013 are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in Note 37 to the financial statements prepared in accordance with HKFRSs.

Corporate Governance Structure

VI. Auditors' Remuneration

Ernst & Young Hua Ming LLP and Ernst & Young acted as the Company's PRC and Hong Kong auditors, respectively. Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2013 were paid on a consolidated basis, whereby an aggregate audit fee of RMB5,850,000 was paid to Ernst & Young Hua Ming LLP and Ernst & Young. The amount of 2013 internal control audit fee paid to Ernst & Young Hua Ming LLP by the Company was RMB824,000. For further details of the remuneration of the auditors of the Company, please refer to the section of this report headed "Material Matters (XIV) Appointment of Auditors".

VII. Company Secretary

The Company Secretary (Mr. Feng Jianxiong) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees (I) Brief Biographical Details of Directors, Supervisors and Senior Management". In 2013, the Company Secretary received more than 15 hours of training to updade his professional skills and expertise.

VIII. Accountability and Audit

The Directors of the Company confirm that they are responsible for preparing the accounts and providing balanced, objective assessments which are clear and easy to understand in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other inside information announcements and other financial disclosures required under the Hong Kong Listing Rules, and disclosing information to regulatory authorities in accordance with statutory requirements.

If the Directors become aware of significant uncertainties or conditions that might have an adverse material impact on the ability of the Company to operate as a going concern, the Directors must provide a clear disclosure and detailed discussion of such uncertainties in the corporate governance report.

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2013 is set out in the report of the Independent auditors in page 315–316 of this report.

IX. Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's internal control systems to ensure its effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries. The Directors are responsible for reviewing resources on the financial reporting functions, qualification and experience of the staff and whether the courses and budget for staff training are sufficient.

The Company continued to improve its internal control system in 2013. During the year, the risk control team of the Company's internal control and audit department further streamlined the business processes and key controls, prepared risk checklists, conducted walk-through tests and compliance tests on key controls and updated the risk control matrix on the basis of internal control work completed in 2012 in accordance with 18 application guidelines in the "Supplementary Guidelines for Corporate Internal Control." The risk control team of the internal control and audit department also conducted specific investigation on key management issues of the Company and made recommendations on management optimisation in respect of risks existing in our operation. All in all, the Company has established and effectively implemented an internal control regime that meets its operational needs and covers all segments of the Company's operation. The Company will continue to adjust and improve the development of its internal control regime in a timely manner in response to changes in internal and external conditions.

The Audit Committee under the Board of Directors convenes regular meetings each year in accordance with relevant laws and regulations to review the effectiveness of and identify rooms for further improvements in financial, operational and supervisory controls and the risk management procedures. Reports are being submitted to the Board of Directors of the Company on the implementation of internal control measures.

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation during the financial year ended 31 December 2013.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. An assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2013, please refer to the section of this report headed "Internal Control".

Internal Control

(I) OVERVIEW OF THE COMPANY'S INTERNAL CONTROL DEVELOPMENT

In order to enhance internal control, improve the Company's operational management standard and risk aversion ability and ensure the security, compliance and effective operation of the Company's assets, the Company has established a reasonable and effectively operating internal control regime in accordance with provisions of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, Rules for Corporate Internal Control and Supplementary Guidelines for Corporate Internal Control and other pertinent laws, regulations and regulatory documents.

1. Overview of internal control development and improvement

The Company's internal control establishment has basically covered all operating segments of the Company, including production operations, financial management, organization, personnel management, and information disclosure, etc. The Company has, taking into account its specific conditions, developed a comprehensive internal control system comprising the Rules of Procedure of the General Meetings, Rules of Procedure of the Board of Directors Meetings, Rules of Procedure of the Supervisory Committee, Independent Director System, Administrative Rules of the Company on Information Disclosure, Internal Control System of the Company, Administrative Rules of the Company on Issue Proceeds, System of Registration of Owners of Inside Information, System for the Administration of External Information Users, System of Accountability for Significant Errors in Information Disclosure of Annual Reports, System of Derivative Investment Risk Control and Information Disclosure, Administrative Measures on Third-party Guarantees, Administrative Measures on Connected Transactions and Administrative Measures on Equity Investment in Operating Subsidiaries, etc.

2. Establishment of internal control departments and internal control implementation

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board, the Audit Committee, the risk control work steering group, the Internal Control and Audit Department Risk Control Team and the internal control teams of various business units. In 2013, the Company focused on the following internal control operations:

During the first quarter of 2013, the Company mainly 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 "Material Matters" in the 2013 first quarterly report of the Company.

During the second quarter of 2013, the Company commenced the development of its internal control structure and operating mechanism, inspection, testing and rectification of internal control issues and optimisation streamlining of the internal control manual. For details of internal control development in the second quarter, please refer to the section headed "Material Matters" in the 2013 interim report of the Company.

During the third quarter of 2013, the risk control work steering group of the Company held internal control meetings to drive internal control operations, streamlined and improved the internal control manual, completed internal control audit on specific activities such as connected transactions and drive the development of risk control IT tools. For details of internal control development in the third quarter, please refer to the section headed "Material Matters" in the 2013 third quarterly report of the Company.

Internal control performed during the fourth quarter of 2013:

1. corporate-level internal control work meeting held once to deliberate and plan for the Company's risk management operations and to assign the additional duty of overall risk management and control to the internal control and audit department.

2. Completion of internal control rectification in key areas such as risk management, significant investments (by subsidiaries); rectification, implementation and completion of management recommendations proposed by independent audit firms.

3. Commencement of internal control audit of the Company for 2013; commencement of internal control self-assessment for 2013 by the internal control teams of various business units.

4. Output of the finalised version of the 2013 internal control manual; engaging suppliers in the sharing, presentation and verification of solutions in respect of risk control IT tools development.

5. Ongoing publicity campaign on internal control to enhance staff awareness of and ability in internal control.

(II) OPINION ON INTERNAL CONTROL ASSESSMENT

1. The 2013 Internal Control Assessment Report of ZTE Corporation published by the Company

The Company has conducted an assessment on the effectiveness of the design and operation of its internal control for the year ended 31 December 2013 in accordance with the Basic Rules for Corporate Internal Control, Guidelines for Corporate Internal Control Assessment, Rules for the Preparation and Reporting of Information Disclosure by Listed Issuers of Securities No. 21 — General Provisions on the Annual Internal Control Assessment Report, and the requirements of other pertinent laws and regulations.

The Board of Directors of the Company is of the view that the Company has developed, in respect of businesses and matters within the scope of assessment, an internal control regime that meets the needs of its operational requirements and covers all segments of the Company's operation in effective implementation, and that the Company's internal control objectives have been achieved without any significant deficiencies.

In future periods, the Company will continue to adjust and improve in a timely manner the building of its internal control regime, regulate the implementation of its internal control system and strengthen supervision and inspection of its internal controls in response to changes in the internal and external environment, in order to facilitate sound and sustainable development.

For details of the Company's internal control, please refer to the "2013 Internal Control Assessment Report of ZTE Corporation" published by the Company on 27 March 2014 on http://www.cninfo.com.cn.

Internal Control

2. Statement of the Directors of the Company on Internal Control Responsibility

In accordance with the provisions of the Rules for Corporate Internal Control, the Board of Directors of the Company is responsible for the development and effective implementation of effective internal control, assessment of the effectiveness thereof and truthful disclosure of the internal control assessment report. The Board of Directors of the Company warrants that there are no false records or misleading statements in or material omissions from the Company's 2013 Internal Control Assessment Report and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of the said report.

The Board of Directors of the Company is of the view that the Company has fundamentally established a comprehensive internal control system in accordance with relevant laws and regulations and regulatory documents. The internal control system of the Company has taken into account five basic elements of internal control: internal environment, risk assessment, business controls, information and communications and internal supervision. The Company has exercised stringent, adequate and effective internal control in respect of subsidiaries, connected transactions, third-party guarantees, significant investments, information disclosure, and all systems have been adequately and effectively implemented. The operation of the Company's internal control regime is generally effective without any significant defects in its mechanism and system as a whole or any significant deviations in implementation.

Therefore, the Board of Directors of the Company is of the view that the Company has not identified any significant defects in the design or implementation of internal control in 2013. The Company's 2013 Internal Control Assessment Report is in line with the status of internal control at the Company.

3. Opinion of the Supervisors of the 2013 Internal Control Assessment Report of the Company

(1) The Company has established a comprehensive and proper internal control system in accordance with relevant regulations of the CSRC and the Shenzhen Stock Exchange and taking into account the specific conditions of the Company, effectively ensuring regulated operation and sound development for the Company and safeguarding the safety and integrity of the Company's assets.

(2) The Company has established and optimised its internal organisational structure in accordance with modern enterprise systems and internal control principles, forming a scientific mechanism for decision-making, implementation and supervision. The Company's internal audit department is equipped with sufficient manpower that ensures effective implementation and supervision of its key internal control activities.

(3) During the reporting period, the management and decision-making processes of the Company were in strict compliance with various rules and regulations and no violations of provisions under Basic Rules for Corporate Internal Control and its Supplementary Guidelines and other regulatory requirements for internal control or the Company's internal control system had been reported.

In view of the above and having reviewed the Company's 2013 Internal Control Assessment Report, the Supervisory Committee is of the view that the 2013 Internal Control Assessment Report of the Company is a true, objective and complete reflection of the status of the Company's internal control, and has no objection to the 2013 Internal Control Assessment Report of the Company.

4. Independent Opinion of the Independent non-executive Directors of the Company on the 2013 Internal Control Assessment Report of the Company

(1) The Company has established a comprehensive internal control regime in compliance with relevant laws, administrative regulations and departmental rules and regulations of the State. In 2013, the Company was in compliance with basic principles in internal control and further improved and developed its internal control and management system and continued to advance its internal control development in an orderly manner taking into account its specific conditions, business development and management requirements.

(2) The Company has established relevant control regimes and mechanisms for each of the five aspects of environment for control, risk assessment, business controls, information and communications and supervision. The internal control system in force is sound, reasonable and effective and provides reasonable assurance for legal compliance of the Company's operations and management, asset security and true and complete financial reporting and information disclosure.

(3) The 2013 Internal Control Assessment Report of the Company duly reflects the status of the Company's internal Control.

5. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the China Code of Ethics for Certified Public Accountants, Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2013 and furnished an opinion as follows:

Ernst & Young Hua Ming LLP is of the view that ZTE Corporation has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions.

For the internal control audit report of the Company, please refer to the "Internal Control Audit Report of ZTE Corporation" published by the Company on 27 March 2014 on http://www.cninfo.com.cn.

(III) BASIS, IMPROVEMENT AND OPERATION OF THE FINANCIAL REPORTING INTERNAL CONTROL SYSTEM

The Company has formulated a range of administrative systems in connection with financial management, etc in accordance with laws and regulations including the Accounting Law, ASBEs and Basic Rules for Corporate Internal Control and its Supplementary Guidelines, and has effectively implemented and executed such systems in actual operation, and the functions of and delegations in accounting and financial management have been improved and enhanced in terms of rules and regulations. In connection with job positions, staff deployment and key accounting practices, the Company has established an independent accounting department and members of such accounting department have diligently complied with national financial policies and laws and regulations and deal with accounting matters in strict accordance with the Accounting Law, ASBEs and other pertinent regulations.

During the year, the Company did not identify any significant deficiencies in its financial reporting internal control.

Internal Control

(IV) ESTABLISHMENT AND IMPLEMENTATION OF THE SYSTEM OF ACCOUNTABILITY FOR SIGNIFICANT ERRORS IN INFORMATION DISCLOSURE OF ANNUAL REPORTS

The Company has established the ZTE Corporation System of Accountability for Significant Errors in Information Disclosure of Annual Reports in accordance with the Company Law, Securities Law, Accounting Law, Measures for the Administration of Information Disclosure by Listed Companies and other pertinent laws, regulations and regulatory documents, which expressly provides for the identification and handling of significant accounting errors in financial reports and significant errors in other information disclosures of annual reports, as well as accountability for such significant errors in information disclosures of annual reports. The system was considered and approved at the Second Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2010 and became effective on the same date.

The Company has diligently implemented the system. There was no correction of significant accounting errors, remedy of significant omission of information and revision of business projections during the year.

Report of the PRC Auditors

Ernst & Young Hua Ming (2014) Shen Zi No. 60438556_H01

ERNST & YOUNG HUA MING
安 永 华 明 会 计 师 事 务 所

To the Shareholders of ZTE Corporation:

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2013 and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of ZTE Corporation is responsible for the preparation and fair presentation of financial statements. Such responsibility includes: (1) preparation of the financial statements in accordance with the Accounting Standards for Business Enterprises to ensure fair representation; (2) the design, implementation and maintenance of necessary internal controls so that the financial statements are free from material misstatement whether due to fraud or error.

II. RESPONSIBILITY OF THE CERTIFIED PUBLIC ACCOUNTANT

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements of the Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, certified public accountants consider the internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report of the PRC Auditors

III. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the consolidated and company financial position as at 31 December 2013 and the consolidated and company results of operations and cash flows of ZTE Corporation for the year ended 31 December 2013.

Ernst & Young Hua Ming LLP	Chinese Certified Public Accountant: **Li Yuxing (黎宇行)**
Beijing, the People's Republic of China	Chinese Certified Public Accountant: **Fu Jie (傅捷)**
	26 March 2014

Consolidated Balance Sheet

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note V	2013	2012 (Restated)
Current assets			
Cash	1	**20,903,035**	24,126,423
Financial assets dealt with at fair value through current profit and loss	2	**217,454**	106,297
Bills receivable	3	**3,500,671**	4,282,220
Trade receivables	4	**21,393,257**	22,068,176
Factored trade receivables	4	**3,338,801**	4,165,514
Other receivables	5	**1,729,163**	2,019,341
Prepayments	6	**751,405**	742,551
Inventories	7	**12,434,352**	11,442,389
Amount due from customers for contract works	8	**12,137,144**	13,666,100
Total current assets		**76,405,282**	82,619,011
Non-current assets			
Available-for-sale financial assets	9	**1,630,271**	1,092,335
Long-term trade receivables	10	**366,762**	1,206,642
Factored long-term trade receivables	10	**2,311,525**	4,018,484
Long-term equity investments	12	**478,037**	455,768
Investment properties	13	**1,855,246**	1,686,158
Fixed assets	14	**7,449,476**	7,096,624
Construction in progress	15	**177,423**	824,387
Intangible assets	16	**1,236,755**	1,087,038
Deferred development costs	16	**2,932,148**	2,446,934
Deferred tax assets	17	**1,353,033**	1,218,605
Long-term deferred assets		**70,942**	90,017
Other non-current assets	19	**3,812,597**	3,604,303
Total non-current assets		**23,674,215**	24,827,295
TOTAL ASSETS		**100,079,497**	107,446,306

Consolidated Balance Sheet (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities and shareholder's equity	Note V	2013	2012 (Restated)
Current liabilities			
Short-term loans	20	**12,589,032**	17,923,607
Bank advances on factored trade receivables	4	**3,377,374**	4,168,932
Financial liabilities dealt with at fair value through current profit and loss	21	**67,779**	105,739
Bills payable	22	**8,498,021**	11,478,102
Trade payables	23	**16,492,534**	18,115,877
Amount due to customers for contract works	8	**3,682,564**	3,459,545
Advances from customers	24	**2,776,366**	3,106,638
Salary and welfare payables	25	**2,462,006**	2,346,526
Taxes payable	26	**(1,251,859)**	(1,161,974)
Dividends payable	27	**34,963**	205,783
Other payables	28	**8,478,144**	8,127,193
Deferred income		**408,845**	267,082
Provisions	29	**601,111**	291,457
Long-term loans due within one year	30	**2,753,925**	4,524,420
Total current liabilities		**60,970,805**	72,958,927
Non-current liabilities			
Long-term loans	31	**5,385,673**	989,990
Bank advances on factored long-term trade receivables	10	**2,311,525**	4,018,484
Bonds payable	32	**6,119,590**	6,107,993
Provision for retirement benefits	25	**95,806**	99,932
Deferred tax liabilities	17	**139,900**	139,900
Other non-current liabilities	33	**1,430,509**	538,241
Total non-current liabilities		**15,483,003**	11,894,540
Total liabilities		**76,453,808**	84,853,467
Shareholders' equity			
Share capital	34	**3,437,541**	3,440,078
Capital reserves	35	**9,491,663**	9,306,752
Surplus reserve	36	**1,613,195**	1,587,430
Retained profits	37	**8,933,788**	7,705,022
Proposed final dividends	37	**103,126**	—
Foreign currency translation differences		**(1,046,665)**	(582,699)
Total equity attributable to equity holders of the parent		**22,532,648**	21,456,583
Non-controlling interests		**1,093,041**	1,136,256
Total shareholders' equity		**23,625,689**	22,592,839
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**100,079,497**	107,446,306

The financial statements set out on page 149 to 314 have been signed by:

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

Consolidated Income Statement

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2013	2012 (Restated)
Operating revenue	38	**75,233,724**	84,118,874
Less: Operating costs	38	**53,125,904**	64,091,546
Taxes and surcharges	40	**1,079,532**	1,191,951
Selling and distribution costs	41	**10,003,850**	11,180,633
Administrative expenses	42	**2,202,267**	2,281,472
Research and development costs		**7,383,892**	8,829,194
Finance expenses	45	**2,460,303**	2,230,680
Impairment losses	46	**1,589,486**	467,050
Add: Gains/(losses) from changes in fair values	43	**204,010**	(107,396)
Investment income	44	**914,406**	1,258,886
Including: Share of profits and losses of associates and (joint ventures)	44	**34,466**	48,123
Operating profit/(loss)		**(1,493,094)**	(5,002,162)
Add: Non-operating income	47	**3,465,428**	3,081,253
Less: Non-operating expenses	47	**144,491**	62,291
Including: Loss on disposal of non-current assets		**18,066**	19,446
Total profit/(loss)		**1,827,843**	(1,983,200)
Less: Income tax	48	**394,207**	621,421
Net profit/(loss)		**1,433,636**	(2,604,621)
Attributable to:			
Owners of the parent		**1,357,657**	(2,840,962)
Non-controlling interests		**75,979**	236,341
Earnings per share	49		
Basic		**RMB0.39**	RMB(0.83)
Diluted		**RMB0.39**	RMB(0.83)
Other comprehensive income	50		
Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods			
Change in net liabilities or net profit arising from the re-measurement of defined benefit plans		**7,040**	8,445
Other comprehensive income will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions			
Gain arising from changes in the fair value of available-for-sale financial assets		**169,639**	30,792
Effective portion gain or loss arising from cash flow hedging instruments		**5,784**	(12,736)
Revaluation gain as at the valuation date upon transfer from owner-occupied properties to investment properties		**—**	792,769
Exchange differences on translation of foreign operations		**(461,725)**	(52,445)
		(286,302)	758,380
Other comprehensive income, net of income tax effect on respective items		**(279,262)**	766,825
Total comprehensive income		**1,154,374**	(1,837,796)
Attributable to:			
Owners of the parent		**1,055,746**	(2,094,862)
Non-controlling interests		**98,628**	257,066

Consolidated Statement of Changes in Equity

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

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

Consolidated Cash Flow Statement

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

		Note V	2013	2012
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**81,718,914**	87,302,343
	Refunds of taxes		**7,084,639**	7,588,437
	Cash received relating to other operating activities	51	**1,768,549**	600,738
	Sub-total of cash inflows		**90,572,102**	95,491,518
	Cash paid for goods and services		**62,736,010**	64,944,598
	Cash paid to and on behalf of employees		**11,606,711**	13,022,924
	Cash paid for all types of taxes		**5,801,983**	6,607,571
	Cash paid relating to other operating activities	51	**7,852,820**	9,366,409
	Sub-total of cash outflows		**87,997,524**	93,941,502
	Net cash flows from operating activities	52	**2,574,578**	1,550,016
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**987,347**	1,344,548
	Cash received from return on investment		**183,098**	35,817
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**5,955**	41,845
	Net cash received from the disposal of subsidiaries		**1,318,667**	989,185
	Sub-total of cash inflows		**2,495,067**	2,411,395
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**2,336,926**	2,377,654
	Cash paid for acquisition of investments		**1,820,312**	1,636,871
	Sub-total of cash outflows		**4,157,238**	4,014,525
	Net cash flows from investing activities		**(1,662,171)**	(1,603,130)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**18,895**	8,100
	Including: Capital injection into subsidiaries by minority shareholders		**18,895**	8,100
	Cash received from borrowings		**23,357,872**	45,539,644
	Sub-total of cash inflows		**23,376,767**	45,547,744
	Cash repayment of borrowings		**24,372,924**	40,920,499
	Cash payments for distribution of dividends, profits and for interest expenses		**1,685,508**	2,541,275
	Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**157,567**	102,558
	Sub-total of cash outflows		**26,058,432**	43,461,774
	Net cash flows from financing activities		**(2,681,665)**	2,085,970
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(772,103)**	(35,310)
V.	**Net increase in cash and cash equivalents**		**(2,541,361)**	1,997,546
	Add: cash and cash equivalents at beginning of year		**22,659,635**	20,662,089
VI.	**Net balance of cash and cash equivalents at the end of year**	52	**20,118,274**	22,659,635

Balance Sheet

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

Balance Sheet (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities and shareholders' equity	Note XIII	2013	2012 (Restated)
Current liabilities			
Short-term loans		**8,375,865**	8,803,325
Financial liabilities dealt with at fair value through current profit and loss		**12,575**	42,325
Bank advances on factored trade receivables	1	**2,122,707**	3,548,713
Bills payable		**10,250,993**	13,775,960
Trade payables		**34,200,975**	33,885,695
Amount due to customers for contract works		**2,496,029**	2,600,053
Advances from customers		**2,896,512**	1,765,544
Salary and welfare payables		**688,982**	569,587
Taxes payable		**(1,286,296)**	(1,309,327)
Dividends payable		**152**	152
Other payables		**17,178,123**	16,553,959
Deferred income		**80,401**	133,179
Provisions		**349,291**	159,693
Long-term loans due within one year		**—**	4,518,134
Total current liabilities		**77,366,309**	85,046,992
Non-current liabilities			
Long-term loans		**1,780,000**	—
Bank advances on factored long-term trade receivables	4	**1,968,052**	3,582,669
Bonds payable		**6,119,590**	6,107,993
Provision for retirement benefits	25	**95,806**	99,932
Deferred tax liabilities		**138,400**	138,400
Other non-current liabilities		**1,430,509**	538,241
Total non-current liabilities		**11,532,357**	10,467,235
Total liabilities		**88,898,666**	95,514,227
Shareholders' equity			
Share capital		**3,437,541**	3,440,078
Capital reserves		**9,316,668**	9,286,772
Surplus reserve		**951,439**	925,674
Retained profits/(losses not made up for)		**128,756**	(118,276)
Proposed final dividends		**103,126**	—
Foreign currency translation differences		**(18,081)**	(17,138)
Total shareholders' equity		**13,919,449**	13,517,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**102,818,115**	109,031,337

Income Statement

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

Statement of Changes in Equity

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

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

Cash Flow Statement

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

		Note XIII	2013	2012
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**66,576,915**	71,226,674
	Refunds of taxes		**4,662,932**	5,350,217
	Cash received relating to other operating activities		**1,333,177**	371,771
	Sub-total of cash inflows		**72,573,024**	76,948,662
	Cash paid for goods and services		**63,215,952**	66,348,554
	Cash paid to and on behalf of employees		**4,035,264**	4,980,404
	Cash paid for all types of taxes		**712,708**	753,781
	Cash paid relating to other operating activities		**4,622,116**	4,946,799
	Sub-total of cash outflows		**72,586,040**	77,029,538
	Net cash flows from operating activities	8	**(13,016)**	(80,876)
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**21,300**	—
	Cash received from return on investments		**49,700**	237,030
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**4,606**	13,791
	Net cash received from the disposal of subsidiaries		**1,375,693**	1,441,534
	Sub-total of cash inflows		**1,451,299**	1,692,355
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**937,565**	953,535
	Cash paid for acquisition of investments		**264,674**	1,689,990
	Sub-total of cash outflows		**1,202,239**	2,643,525
	Net cash flows from investing activities		**249,060**	(951,170)
III.	**Cash flows from financing activities**			
	Cash received from borrowings		**15,074,922**	25,619,869
	Sub-total of cash inflows		**15,074,922**	25,619,869
	Cash repayment of borrowings		**17,088,287**	20,680,559
	Cash payments for distribution of dividends, profits and for interest expenses		**1,413,923**	1,848,438
	Sub-total of cash outflows		**18,502,210**	22,528,997
	Net cash flows from financing activities		**(3,427,288)**	3,090,872
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(328,755)**	(59,123)
V.	**Net increase in cash and cash equivalents**		**(3,519,999)**	1,999,703
	Add: cash and cash equivalents at beginning of year		**15,276,437**	13,276,734
VI.	**Net balance of cash and cash equivalents at the end of year**		**11,756,438**	15,276,437

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(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 23February 2009) with a business term of 50 years. 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 provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized subcontracting of telecommunications projects.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

I. CORPORATE BACKGROUND (continued)

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.

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 38.1% 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.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

I. CORPORATE BACKGROUND (continued)

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.

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 second award of the Phase I Share Incentive Scheme fulfilled the conditions for the third 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.

In September 2013, in accordance with the regulations of the Phase I Share Incentive Scheme, the Company repurchased and cancelled a total of 2,536,742 shares subject to lock-up under the Scheme which did not fulfill the conditions for unlocking from 126 Scheme Participants. The total number of share capital changed from 3,440,078,020 shares to 3,437,541,278 shares.

As at 31 December 2013, the total number of the Company's issued share capital on an accumulative basis was 3,437,541,278 shares. Please refer to Note V.34 for details.

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I. CORPORATE BACKGROUND (continued)

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 26 March 2014. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

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" promulgated by the Ministry of Finance in February 2006 and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations subsequently announced and revised (collectively "ASBEs").

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. Adoption of certain revised/new accounting standards

In January to February 2014, the Ministry of Finance formulated and promulgated "ASBE No. 39 — Fair Value Measurement," "ASBE No. 40 — Joint Venture Arrangements," amendments to "ASBE No. 30 — Presentation of Financial Statements," "ASBE No. 9 — Employees' Remuneration" and "ASBE No. 33 — Consolidated Financial Statements." The five aforesaid accounting standards will come into effect on 1 July 2014, although overseas listing enterprises are encouraged to bring forward their implementation. As a company simultaneously listed in China and Hong Kong, the Company adopted the 5 aforesaid accounting standards in the preparation of its 2013 financial statements. Adjustments have also been made in accordance with relevant provisions for reconciliation.

For the purposes of these financial statements, where changes in the aforesaid accounting standards result in changes in the accounting policies of the Company, adjustments have been made in accordance with relevant provisions for reconciliation. Comparatives figures have been adjusted retrospectively where necessary.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2. Adoption of certain revised/new accounting standards (continued)

"ASBE No. 9 — Employees' Remuneration" (Revised)

In accordance with "ASBE No. 9 — Employees' Remuneration" (Revised), retirement benefit plans are classified into defined deposit schemes and defined benefit schemes. A defined deposit scheme is a pension plan for which the Group undertakes no further payment obligations after paying a fixed fee to an independent fund. The defined benefit scheme is any retirement benefit plan other than defined deposit schemes. During the accounting periods when the employee is providing service to an enterprise, amounts payable calculated under the defined deposit scheme should be recognized as liability and charged to current profit and loss or assets. In respect of defined benefit schemes, obligations arising therefrom should be measured using the expected benefit accrual unit approach and appropriate actuarial assumptions, and benefit obligations derived from formulas determined under defined benefit schemes should be assigned to periods during which service is provided by the employee and charged to current profit and loss. Changes arising from the remeasurement of net liabilities or net assets under defined benefit schemes should be charged to other comprehensive income. In addition, the standards also make provisions regarding short-term remuneration and other long-term staff benefits provided by a company to its employees. The Group has made retrospective adjustments to the financial statements in accordance with the standards.

The major effect of retrospective adjustments arising from the aforesaid on the 2013 and 2012 financial statements is set out as follows:

Group

2013			
	Before adoption Opening balance	**Accounting standards adopted "ASBE No. 9 — Employees' Remuneration"**	**After adoption Opening balance**
Capital reserve	**9,352,643**	**(45,891)**	**9,306,752**
Long-term employee remuneration payable	**54,041**	**45,891**	**99,932**

2012			
	Before adoption Opening balance	Accounting standards adopted "ASBE No. 9 — Employees' Remuneration"	After adoption Opening balance
Capital reserve	8,539,807	(54,336)	8,485,471
Long-term employee remuneration payable	48,716	54,336	103,052

Notes to Financial Statements

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

2. Adoption of certain revised/new accounting standards (continued)

"ASBE No. 9 — Employees' Remuneration" (Revised) (continued)

Company

2013			
	Before adoption Opening balance	**Accounting standards adopted "ASBE No. 9 — Employees' Remuneration"**	**After adoption Opening balance**
Capital reserve	**9,332,663**	**(45,891)**	**9,286,772**
Long-term employee remuneration payable	**54,041**	**45,891**	**99,932**

2012			
	Before adoption Opening balance	Accounting standards adopted "ASBE No. 9 — Employees' Remuneration"	After adoption Opening balance
Capital reserve	8,534,677	(54,336)	8,480,341
Long-term employee remuneration payable	48,716	54,336	103,052

3. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2013 and the results of their operations and their cash flows for the year ended 31 December 2013.

4. Financial year

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

5. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. 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.

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

7. 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 31 December 2012. Subsidiaries are those enterprises or entities which the Company has control over (including enterprises, separable components of investee units and structured entities controlled by the Company).

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All assets, liabilities, equities, income, costs and cash flows 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.

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.

In the event of the change in one or more elements of control as a result of changes in relevant facts and conditions, the Group reassesses whether it has control over the investee.

8. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. 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.

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(Prepared in accordance with PRC ASBEs)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. 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.

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 (that is, when a financial asset is written off from its account and balance sheet):

(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. 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.

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

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(Prepared in accordance with PRC ASBEs)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

Classification and valuation of financial liabilities (continued)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

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.

Assets carried at amortised cost

If an impairment loss 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.

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.

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(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

Objective evidence of impairment in equity instruments available-for-sale includes a significant or prolonged decline in their fair value. 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.

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.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. 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.

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

Notes to Financial Statements

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. 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.

Notes to Financial Statements

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. 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; if the equity in the acquiree held prior to the date of acquisition involves other comprehensive income, the related other comprehensive income is transferred to the current investment income when the investment is processed. 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 exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. Long-term equity investments (continued)

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 is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing 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.

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 gains 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.26. 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.10.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. 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.

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 recognised in profit or loss as incurred.

New investment properties of the Group added during the year 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.

15. 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%

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Fixed Assets (continued)

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.26.

16. 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.26

17. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Borrowing costs (continued)

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 any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

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.

18. 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	2–10 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Intangible assets (continued)

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.

For details of impairment test methods and impairment provision methods for intangible assets, please refer to Note II.26.

19. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares of other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the Black-Scholes option pricing model. For details see Note VII. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the instrument ranted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Revenue (continued)

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.

22. 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.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognized as income-related government grants.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Government grants (continued)

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.

23. 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 goodwill or 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 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)

23. 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.

24. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Leases (continued)

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.

25. 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 hedging instrument expires or is sold, terminated or exercised (with the expiry of rollover of the hedging strategic component or unfulfilled replacement or the termination of processing of the contract), if its designation as a hedge is revoked, or if the hedge no longer fulfills the accounting requirement of a hedge, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs or is fulfilled in actual terms.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. 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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term staff benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Retirement benefit (defined deposit scheme)

Employees of the Group participated in pension insurance schemes managed by the local government. The contribution costs are charged as asset cost or to current profit or loss when incurred.

Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme which requires the deposit of fees to an independently managed fund. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognized in the balance sheet and charged to shareholders' equity through Other Comprehensive Income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

Previous service costs are recognised as current expenses when: the defined benefit scheme is revised, or; relevant restructuring costs or termination benefits are recognized by the Group, whichever earlier.

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognized as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognized and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or; costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognized, whichever earlier.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

28. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments and listed equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date. The Group measures assets or liabilities at fair value with the assumption that the orderly transaction of asset disposal or the transfer of liabilities takes place in the major market for the relevant assets or liabilities. Where there is no major market, the Group assumes such transaction takes place in the most favourable market for the relevant assets or liabilities. The major market (or most favourable market) is a trading market which the Group has access to on the measurement date. The Group adopts assumptions used by market participants when they price the asset or liability with the aim of maximizing its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilize the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilize the asset in the best way for generating economic benefits.

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents observable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognized in the financial statements to determine whether the level of fair value measurement should be changed.

29. Profit distribution

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. 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)

30. 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)

30. 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. 21 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.17.

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)

30. 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)

30. 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. The carrying value of investment property as at 31 December 2013 was RMB1,855,246,000 (31 December 2012: RMB1,686,158,000).

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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%; Output tax at a tax rate of 6% is payable on sales service income generated from amended or new additional scope of business 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 is subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New Software Company Limited, recognized as a Key Software Enterprise within the National Programming Layout for the years from 2013 to 2014, is a national-grade hi-tech enterprise, subject to an enterprise income tax rate of 10%.

Nanjing Zhongxingxin Software Company Limited, recognized as a software enterprise in December 2009, has been 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 Cai Shui [2008] No. 1. The current year is its fourth profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Notes to Financial Statements

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III TAXATION (continued)

2. Tax concession and approval documents (continued)

Shenzhen Zhongxing ICT Company Limited, recognized as a software enterprise in September 2009, has been 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 Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its fifth profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for the current year as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout from 2013 to 2014.

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

Shenzhen ZTE Mobile Telecom Co., Ltd is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hitech Industrial Park.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% as a national-grade hi-tech enterprise and an Integrated Circuit Design Enterprise under the National Planning Layout from 2013 to 2014.

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

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the year under review as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout from 2013 to 2014.

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

ZTEsoft Technology Company Limited was subject to an enterprise income tax rate of 10% for the year under review as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout from 2013 to 2014.

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

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IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT

1. Subsidiaries

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

Type of subsidiary	Place of registration/ principal place of business	Legal Representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at year-end	Balance of other items effectively representing net investment	Percentage of Shareholding (%)		Percentage of voting rights (%)	Whether statements are consolidated	Minority interests
									Direct	Indirect			
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	HK995 million	General services	Nil	HK995 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing Telecom Technology & Service 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	282,741
Shenzhen ZTE Mobile Telecom Co., Ltd	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB79.166 million	Production and sale of telecommunication products	73205874-2	RMB71.249 million	–	90%	–	90%	Yes	118,728
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication service	RMB10 million	Production and sale of telecommunication products	76223980-0	RMB9 million	–	90%	–	90%	Yes	17,313
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 related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB60 million	Design and sales of corporate management hard/ software products	68537795-0	RMB54 million	–	90%	–	90%	Yes	56,204

Notes to Financial Statements

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IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (continued)

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, 福建海絲路科技有限公司 and 堔圳匯方科技有限公司; 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, 黃岡教育穀投資控股有限公司, Shenzhen ZTE SEECOM Tech Co., Ltd.,深圳市興聯達科技有限公司, 堔圳市訊聯智付網絡有限公司, ZTE (TX) Inc., ZTE EGYPT FOR COMMUNICATION and 南京中興集群軟件有限公司; new tier-three subsidiaries established included PT ZTE JOYGOR INDONESIA, ZTE (MLVV) LIMITED and 衡陽網信置業有限公司.

In 2013, the following subsidiaries are not included in the scope of consolidation:

	Disposal Date Net assets	Beginning of year to disposal date Net profit
Shenzhen ZTE NetView Technology Company Limited ("ZNV")	632,212	—
Wuxi Zhongxing Optoelectronics Technologies Company Limited ("Wuxi Zhongxing")	134,293	(124)

Other than the aforesaid newly established and disposed subsidiaries, the scope of consolidation was consistent with that of the previous year.

	Place of registration	Nature of business	Percentage of the Group's shareholdings	Percentage of the Group's voting rights	Reason for ceasing to be a subsidiary
ZNV	Shenzhen	Communications and related technical services	90%	90%	Disposal
Wuxi Zhongxing	Wuxi	manufacturing of communications and related equipment	65%	65%	Disposal

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IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (continued)

2. Changes in the scope of consolidation (continued)

Shenzhen ZTE NetView Technology Company Limited

	Disposal Date Book value (Note)
Current assets	1,097,744
Non-current assets	117,893
Current liabilities	(583,425)
	632,212
Minority interests	(63,221)
Net assets of disposed subsidiaries attributable to shareholdings	568,991
Fair value of remaining equity	(129,184)
Gains on disposal	852,567
Disposal consideration	1,292,374

Note: As the period from 1 January 2013 to the disposal date is relatively short, the impact of profit arising from NetView was not significant, nor had any material transaction or matter occurred. Hence, the management of the Company are of the opinion that there is no material change in the book value of related assets, liabilities and ownership interests on the disposal date from 31 December 2012. The book value of the net assets of NetView on 31 December 2012 is considered the related gains on disposal.

Wuxi Zhongxing Optoelectronics Technologies Company Limited

	31 October 2013 Book value	31 December 2012 Book value
Current assets	**229,169**	251,150
Non-current assets	**86,069**	91,376
Current liabilities	**(180,945)**	(208,109)
	134,293	134,417
Minority interests	**47,003**	47,046
Net assets of disposed subsidiaries attributable to shareholdings	**87,290**	
Gains on disposal	**14,110**	
Disposal consideration	**101,400**	

	Period from 1 January to 31 October
Operating revenue	**155,313**
Operating costs	**133,423**
Net loss	**124**

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IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (continued)

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

	Average rate		Year-end rate	
	2013	2012	**2013**	2012
USD	**6.1912**	6.2932	**6.0969**	6.2855
EUR	**8.3683**	8.2401	**8.4189**	8.3176
HKD	**0.7986**	0.8108	**0.7862**	0.8109
GBP	**10.1084**	9.9364	**10.0556**	10.1611
INR	**0.1068**	0.1166	**0.0987**	0.1149
BRL	**2.8334**	3.2264	**2.5962**	3.0706
PKR	**0.0613**	0.0675	**0.0580**	0.0647
IDR	**0.0006**	0.0007	**0.0005**	0.0007
SAR	**1.6510**	1.6783	**1.6258**	1.6761
DZD	**0.0796**	0.0821	**0.0785**	0.0807
JPY	**0.0654**	0.0771	**0.0578**	0.0730
RUB	**0.1957**	0.2014	**0.1852**	0.2061
PLN	**2.0340**	1.9423	**2.0248**	2.0433

4. Significant non-controlling interests

During the year, no non-controlling interests in the Group's subsidiaries was significant.

Notes to Financial Statements

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

1. Cash

		2013			2012		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash	RMB	**2,030**	**1.0000**	**2,030**	174	1.0000	174
	USD	**2,812**	**6.0969**	**17,144**	19	6.2855	119
	SAR	**84**	**1.6258**	**136**	140	1.6761	234
	DZD	**4,510**	**0.0785**	**354**	1,859	0.0807	150
	INR	**486**	**0.0987**	**48**	487	0.1149	56
	THB	**501**	**0.1858**	**93**	222	0.2071	46
	PLN	**783**	**2.0248**	**1,586**	277	2.0433	565
	KZT	**14,375**	**0.0400**	**575**	14,163	0.0418	592
	EGP	**46**	**0.8820**	**41**	93	1.0384	97
	Others			**2,753**			90
	Sub-total			**24,760**			2,123

		2013			2012		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	**9,355,809**	**1.0000**	**9,355,809**	11,334,312	1.0000	11,334,312
	USD	**722,971**	**6.0969**	**4,407,879**	1,141,645	6.2855	7,175,809
	HKD	**230,094**	**0.7862**	**180,900**	207,493	0.8109	168,256
	BRL	**58,772**	**2.5962**	**152,583**	47,998	3.0706	147,384
	PKR	**1,613,948**	**0.0580**	**93,609**	778,964	0.0647	50,399
	EGP	**90,680**	**0.8820**	**79,980**	4,080	1.0384	4,237
	IDR	**99,816,000**	**0.0005**	**49,908**	40,554,286	0.0007	28,388
	EUR	**246,778**	**8.4189**	**2,077,603**	121,194	8.3176	1,008,047
	DZD	**708,841**	**0.0785**	**55,644**	641,611	0.0807	51,778
	MYR	**18,365**	**1.8470**	**33,921**	23,561	2.1017	49,519
	ETB	**191,776**	**0.3209**	**61,541**	54,487	0.3486	18,994
	CAD	**70,698**	**5.7259**	**404,812**	12,228	6.3068	77,119
	GBP	**5,038**	**10.0556**	**50,662**	1,086	10.1611	11,034
	THB	**3,005,651**	**0.1858**	**558,450**	630,053	0.2071	130,484
	RUB	**597,306**	**0.1852**	**110,621**	495,303	0.2061	102,082
	JPY	**6,717,336**	**0.0578**	**388,262**	3,839,740	0.0730	280,301
	VEF	**112,263**	**0.9691**	**108,794**	84,527	1.1859	100,241
	COP	**48,595,000**	**0.0032**	**155,504**	31,140,833	0.0036	112,107
	NPR	**2,305,040**	**0.0623**	**143,604**	1,591,753	0.0730	116,198
	CLP	**743,362**	**0.0116**	**8,623**	2,669,160	0.0131	34,966
	Others			**1,690,925**			1,742,465
	Sub-total			**20,169,634**			22,744,120

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

1. Cash (continued)

		2013			2012		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	349,185	1.0000	349,185	675,800	1.0000	675,800
	USD	55,888	6.0969	340,744	90,695	6.2855	570,064
	Others			18,712			134,316
	Sub-total			708,641			1,380,180
	Total			20,903,035			24,126,423

As at 31 December 2013, the Group's cash subject to ownership restriction amounted to RMB708,641,000 (31 December 2012: RMB1,380,180,000), including acceptance bill deposits of RMB37,237,000 (31 December 2012: RMB237,054,000), letter of credit deposits of RMB11,209,000 (31 December 2012: RMB38,882,000), deposit for guarantee letter of RMB116,791,000 (31 December 2012: RMB288,561,000), dues from the People's Bank of China of RMB288,821,000 (31 December 2012: 404,736,000) and risk compensation fund to be released within one year of RMB254,583,000 (31December 2012: RMB410,947,000).

Under the 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 31 December 2013, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,651,480,000 (31 December 2012: RMB3,568,024,000). Risk compensation fund to be released within one year amounting to RMB254,583,000 (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 RMB3,396,897,000 (31 December 2012: RMB3,157,077,000) was accounted for as other non-current assets.

As at 31 December 2013, the Group's overseas currency deposits amounted to RMB6,722,472,000 (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 short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB76,120,000 (31 December 2012: RMB86,608,000) were not included in cash and cash equivalents. Out of this amount, time deposit of RMB23,000,000 was pledged by Netex Cayman Holdings Co. Ltd to secure a RMB18,291,000 loan.

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

2. Financial assets at fair value through current profit and loss

	2013	2012
Financial assets at fair value through profit or loss	–	44,919
Derivative financial assets	217,454	61,378
	217,454	106,297

Trading in derivative financial instruments comprised two components: one component comprised transactions in forward exchange contracts with reputable banks in the PRC and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the year, gain arising from fair value changes of non-hedging derivative financial instruments amounting to RMB174,829,000 (2012: loss of RMB49,456,000) was dealt with in current profit or loss. The other component comprised the value of the conversion rights of the convertible bonds of China All Access (Holdings) Limited subscribed for by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company.

3. Bills receivable

	2013	2012
Commercial acceptance bills	1,690,895	1,577,628
Bank acceptance bills	1,809,776	2,704,592
	3,500,671	4,282,220

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

As at 31 December 2013, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares of RMB85,042,000 (31 December 2012: RMB117,871,000). For detailed figures please refer to Note VI "The relationships and transactions with related parties".

At 31 December 2013, there were no bills receivable that were endorsed but outstanding. (31 December 2012: Nil).

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

3. Bills receivable (continued)

During the year, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group was of the view that substantially all risks and rewards relating to bills receivable with a carrying amount of RMB491,634,000 (31 December 2012: RMB1,965,274,000) 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 has not recognized any gain or loss on the date of transfer of the discounted bills receivable. No gains or losses were recognized 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 derecognizing financial assets were not fulfilled. As at 31 December 2013, the carrying value of discounted bills receivable not qualified for derecognition of financial assets amounted to RMB102,000,000 (31 December 2012: RMB603,051,000), which were discounted to secure short term loans.

As at 31 December 2013, no bills were pledged as security for short term loans (31 December 2012: RMB14,178,000).

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.

	2013			2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**7,084,955**	**1.0000**	**7,084,955**	4,930,626	1.0000	4,930,626
USD	**1,246,533**	**6.0969**	**7,599,987**	1,487,099	6.2855	9,347,163
EUR	**221,689**	**8.4189**	**1,866,381**	330,035	8.3176	2,745,097
BRL	**77,856**	**2.5962**	**202,130**	177,949	3.0706	546,410
THB	**3,321,066**	**0.1858**	**617,054**	989,601	0.2071	204,946
INR	**16,558,956**	**0.0987**	**1,634,369**	17,030,601	0.1149	1,956,816
Others			**2,388,381**			2,337,118
			21,393,257			22,068,176

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

4. Trade receivables (continued)

Aging analysis of trade receivables was as follows:

	2013	2012
Within 1 year	**19,024,398**	21,223,530
1 to 2 years	**3,574,181**	1,572,612
2 to 3 years	**712,489**	906,071
Over 3 year	**1,833,407**	1,260,574
	25,144,475	24,962,787
Less: bad debt provision for trade receivables	**3,751,218**	2,894,611
	21,393,257	22,068,176

Please refer to Note V. 18 for details of movements in bad debt provision for trade receivables for the year.

	2013				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	**507,337**	**2**	**507,337**	**100**	554,861	2	554,861	100
For which bad debt provision has been collectively made								
0–6 months	**16,094,642**	**63**	**–**	**–**	17,805,093	72	–	–
7–12 months	**2,929,756**	**12**	**234,541**	**8**	3,362,458	13	214,545	6
13–18 months	**2,684,587**	**11**	**621,248**	**23**	1,001,150	4	245,689	25
19–24 months	**886,725**	**4**	**542,964**	**61**	483,963	2	231,499	48
2–3 months	**680,822**	**3**	**484,522**	**71**	860,004	3	752,759	88
Over 3 years	**1,360,606**	**5**	**1,360,606**	**100**	895,258	4	895,258	100
	24,637,138	**98**	**3,243,881**	**13**	24,407,926	98	2,339,750	10
	25,144,475	**100**	**3,751,218**	**15**	24,962,787	100	2,894,611	12

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

4. Trade receivables (continued)

As at 31 December 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	170,331	170,331	100%	Debtor running into serious financial difficulties
Overseas carriers 2	160,272	160,272	100%	Debtor running into serious financial difficulties
Overseas carriers3	77,282	77,282	100%	Debtor running into serious financial difficulties
Others	99,452	99,452	100%	Debtor running into serious financial difficulties
	507,337	507,337		

There was no write-back, write-off or recovery of individually significant trade receivables, or which individual provision for bad debts had been made, in 2013 (2012: Nil).

Top 5 accounts of trade receivables as at 31 December 2013 were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	2,920,663	11.62%
Customer 2	2,599,227	10.34%
Customer 3	1,967,114	7.82%
Customer 4	380,290	1.51%
Customer 5	362,347	1.44%
Total	8,229,641	32.73%

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

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

4. Trade receivables (continued)

As at 31 December 2013, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB102,452,000 (31 December 2012: RMB117,480,000), accounting for 0.41% (31 December 2012: 0.47%) 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 31 December 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 short-term 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 31 December 2013, trade receivables that have been transferred but not settled by the debtors amounted to RMB2,790,279,000 (31 December 2012: RMB6,412,550,000).

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 31 December 2013, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB13,222,149,000 (31 December 2012: RMB12,619,599,000). 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	**2,860,047**
Carrying value of liabilities under continuous involvement	**2,898,620**

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

4. Trade receivables (continued)

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 31 December 2013, the amount of factored trade receivables was RMB5,650,326,000 (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 31 December 2013, the amount of bank advances on factored trade receivables was RMB5,688,899,000 (31 December 2012: RMB8,187,416,000).

5. Other receivables

Aging analysis of other receivables was as follows:

	2013	2012
Within 1 year	**1,420,081**	1,850,113
1 to 2 years	**199,854**	101,510
2 to 3 years	**61,510**	51,854
Over 3 years	**47,718**	15,864
	1,729,163	2,019,341

Top 5 accounts of other receivable as at 31 December 2013 were as follows:

Due from	**Amount**	**As a percentage of total amounts of other receivables**
Thirty-party entity 1	240,000	13.88%
Thirty-party entity 2	104,929	6.07%
Thirty-party entity 3	42,571	2.46%
Thirty-party entity 4	30,000	1.73%
Thirty-party entity 5	23,521	1.36%
Total	441,021	25.50%

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

As at 31 December 2013, other receivables included receivables due from shareholders or related parties holding 5% or more in the voting shares amounted to RMB2,148,000 (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 RMB5,733,000 (31 December 2012: RMB48,900,000) and balance of discounted bills amounting to 0 (31 December 2012: RMB47,872,000).

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

6. Prepayments

Aging analysis of prepayments was as follows:

	2013		2012	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**751,405**	**100%**	742,551	100%

Top 5 accounts of prepayments as at 31 December 2013 were as follows:

Supplier	**Amount**	**As a percentage of total amounts of prepayments**
Supplier 1	**71,439**	**9.51%**
Supplier 2	**45,398**	**6.04%**
Supplier 3	**36,004**	**4.79%**
Supplier 4	**33,772**	**4.49%**
Supplier 5	**32,834**	**4.37%**
Total	**219,447**	**29.20%**

As a 31 December 2013, RMB908,000 (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

	2013			2012		
	Book balance	**Provision For impairment**	**Carrying value**	Book balance	Provision For impairment	Carrying value
Raw materials	**3,794,947**	**475,135**	**3,319,812**	3,516,391	307,303	3,209,088
Materials under sub-contract processing	**159,844**	**7,603**	**152,241**	151,706	1,189	150,517
Work-in-progress	**943,734**	**46,673**	**897,061**	968,472	49,187	919,285
Finished goods	**2,940,432**	**376,657**	**2,563,775**	3,340,073	356,370	2,983,703
Dispatch of goods	**6,120,524**	**619,061**	**5,501,463**	4,609,611	429,815	4,179,796
	13,959,481	**1,525,129**	**12,434,352**	12,586,253	1,143,864	11,442,389

Please refer to Note V.18 for details of movements in the provision for impairment of inventory during the year.

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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

	2013	2012
Amount due from customers for contract works	**12,137,144**	13,666,100
Amount due to customers for contract works	**(3,682,564)**	(3,459,545)
	8,454,580	10,206,555
Contract costs incurred plus recognized profits (losses) to date	**41,905,232**	43,111,813
Less: estimated loss	**105,908**	193,877
progress billings	**33,344,744**	32,711,381
	8,454,580	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

	2013	2012
Available-for-sale equity instruments	**1,630,271**	1,092,335

	2013	2012
Equity instrument cost	**1,460,632**	1,061,543
Accumulated fair value change included in other comprehensive income	**169,639**	30,792
Available-for-sale equity instruments	**1,630,271**	1,092,335

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

10. Long-term receivables

	2013	2012
Installment payments for the provision of system construction projects telecommunication	**449,713**	1,291,443
Less: Bad debt provision for long-term receivables	**82,951**	84,801
	366,762	1,206,642

Please refer to Note V.18 for details of movements in bad debt provision for long-term receivables.

For details of the transfer of long-term receivables, please refer to Note V.4. Long-term receivables comprised factored trade receivables recognized under continuous involvement as described below.

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of USD1.5 billion. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. Two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to factored trade receivables agreements. During the financing period, the banks will charge interest at 6-month USD LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2013, under the above arrangement, trade receivable due from the customer amounted to RMB RMB6,837,218,000 (31 December 2012: RMB7,745,078,000) among which RMB5,469,775,000 (31 December 2012: RMB6,196,062,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,367,443,000 (31 December 2012: RMB1,549,016,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 31 December 2013 amounted to RMB341,624,000 (31 December 2012: RMB446,075,000), comprising RMB84,084,000 (31 December 2012: RMB104,356,000) due within one year and classified as other payables (see Note V. 28) and RMB257,540,000 (31 December 2012: RMB341,719,000) due after one year and classified as other non-current liabilities (see Note V. 33).

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

11. Investments in jointly-controlled entities and associates

2013

	Type of enterprise	Place of registration/ principal place of business	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	N/A
普興移動通訊設備有限公司	Company with limited liability	PRC	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
江蘇中興微通資訊科技有限公司	Company with limited liability	PRC	Jiang Hua	R&D, sales and technical services for communications products	RMB18,000,000	08418232-2
Peng zhong Xing sheng	Company with limited liability	Uzbekistan	Nil	Mobile terminals and smart phones	USD3,160,000	N/A
Associates						
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers andrelated equipment	USD3,000,000	N/A
北京中鼎盛安科技有限公司	Company with limited liability	PRC	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	PRC	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
上海中興群力資訊科技有限公司	Company with limited liability	PRC	Yang Ming	Manufacturing of computers andrelated equipment	RMB5,000,000	69727154-7
ZTE Energy Co., Ltd.	Company with limited liability	PRC	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	PRC	Hong Bo	Computer application services	RMB15,000,000	77585307-6
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	PRC	Zheng Weijie	Computer application services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	PRC	Zhang Dazhong	Advertising, Internet, communications and import and export	RMB5,000,000	58213499-9
Shenzhen Yuanxing Technology Company Limited	Company with limited liability	PRC	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	N/A
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Company with limited liability	PRC	Zeng Li	Hotel management service	RMB30,000,000	69252850-X
北京億科三友科技發展有限公司	Company with limited liability	PRC	J.ZHANG	Computer application services	RMB34,221,649	74610229-X
興天通訊技術(天津)有限公司	Company with limited liability	PRC	Shi Ligong	Communications products and related services	RMB20,000,000	05525232-8
南京皓信達訊網路科技有限公司	Company with limited liability	PRC	MARK BRIAN WHITE	Network software development and sales and related technical services	USD2,000,000	05328848-2
中興九城網路科技無錫有限公司	Company with limited liability	PRC	Zeng Xuezhong	Computer application services	RMB10,000,000	06187686-6
寧波中興興通供應鏈有限公司	Company with limited liability	PRC	Li Xiangmin	End to end supply chain integration services including procurement etc	RMB20,000,000	07924338-9
寧波中興雲祥科技有限公司	Company with limited liability	PRC	Zhang Shenghai	Software R&D and supply chain management	RMB80,000,000	07924345-0

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

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

2012

	Type of enterprise	Place of registration/ principal place of business	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	N/A
普興移動通訊設備有限公司	Company with limited liability	PRC	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	N/A
Wuxi Kaier Technology Company Limited	Company with limited liability	PRC	Li Su	Machinery equipment and instruments	RMB11,332,729	76828981-7
北京中鼎盛安科技有限公司	Company with limited liability	PRC	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	PRC	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	PRC	Yang Ming	Manufacturing of computers andrelated equipment	RMB5,000,000	69727154-7
ZTE Energy Co., Ltd.	Company with limited liability	PRC	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	PRC	Hong Bo	Computer application services	RMB15,000,000	77585307-6
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	PRC	Zheng Weijie	Computer application services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	PRC	Zhang Dazhong	Advertising, Internet, communications and import and export	RMB5,000,000	58213499-9
Shenzhen Yuanxing Technology Company Limited	Company with limited liability	PRC	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	N/A
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Company with limited liability	PRC	Zeng Li	Hotel management service	RMB30,000,000	69252850-X
北京億科三友科技發展有限公司	Company with limited liability	PRC	J.ZHANG	Computer application services	RMB34,221,649	74610229-X
Wuxi Hongtu Microelectronics Technology Company Limited	Company with limited liability	PRC	Leng Jing	IC design	RMB62,860,000	05345775-X
興天通訊技術(天津)有限公司	Company with limited liability	PRC	Shi Ligong	Communications products and related services	RMB20,000,000	05525232-8

During the year, there were no key jointly controlled-entities and associates of the Group which had an significant impact on the Group.

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

12. Long-term equity investments

		2013	2012
Equity method			
Jointly-controlled entities	(1)	**66,891**	46,814
Associates	(2)	**411,146**	408,954
		478,037	455,768

2013

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
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	1,446	46,005	33.85%	50.00%	–
江蘇中興微通信息科技有限公司	9,000	–	9,000	9,000	50.00%	50.00%	–
Peng zhong Xing sheng	9,631	–	9,631	9,631	50.00%	50.00%	–
		46,814	20,077	66,891			–

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

12. Long-term equity investments (continued)

2013 (continued)

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49.00%	49.00%	–
Wuxi Kaier Technology Company Limited	7,922	21,374	(21,374)	–	–	–	–
北京中鼎盛安科技有限公司	1,960	626	(626)	–	49.00%	49.00%	–
思卓中興（杭州）科技有限公司	22,845	19,455	46	19,501	49.00%	49.00%	–
上海中興群力信息科技有限公司	2,000	12,152	12,699	24,851	40.00%	40.00%	–
ZTE Energy Co., Ltd	300,000	302,793	13,029	315,822	23.26%	23.26%	9,461
ZTE Software Technology (Nanchang) Company Limited	4,500	836	137	973	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	1,656	3,222	33.00%	33.00%	–
Shenzhen Yuanxing Technology Co., Ltd.	1,850	4,116	(1,363)	2,753	25.00%	25.00%	–
Telecom Innovations	4,082	4,322	5,755	10,077	27.70%	27.70%	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited*	5,400	5,548	247	5,795	18.00%	40.00%	–
北京億科三友科技發展有限公司	6,844	5,932	(1,168)	4,764	20.00%	20.00%	–
Wuxi Hongtu Micro-electronic Technology Co., Ltd	21,826	21,826	(21,826)	–	–	–	–
興天通訊技術（天津）有限公司	6,000	5,869	944	6,813	30.00%	30.00%	–
南京皓信達訊網路科技有限公司	4,200	–	3,702	3,702	25.00%	25.00%	–
中興九城網路科技無錫有限公司	3,350	–	3,134	3,134	33.50%	33.50%	–
寧波中興興通供應鏈有限公司	4,000	–	4,000	4,000	20.00%	20.00%	–
寧波中興雲祥科技有限公司	3,200	–	3,200	3,200	20.00%	20.00%	–
		408,954	2,192	411,146			9,461

* The shareholding percentages of the Group's interests in 普興移動通訊設備有限公司 and Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited were inconsistent with the proportions of its voting rights in the investees, as the proportions of voting rights had been stipulated in the respective articles of association of these companies.

2012

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
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	43,940	619	44,559	33.85%	50.00%	–
		46,195	619	46,814			–

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

12. Long-term equity investments (continued)

2012 (continued)

(2) *Associates*

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Zhongxing Xinyu FPC Company Limited	5,000	12,752	(12,752)	–	–	–	–
Shenzhen Fudekang Electronics Company Limited	1,800	3,809	(3,809)	–	–	–	–
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49.00%	49.00%	–
Wuxi Kaier Technology Company Limited	7,922	19,635	1,739	21,374	42.64%	42.64%	–
Shenzhen Weigao Semiconductor Company Limited	4,000	5,259	(5,259)	–	–	–	–
Shenzhen Decang Technology Company Limited	750	20,649	(20,649)	–	–	–	1,313
Shenzhen Jufei Optoelectronics Co., Ltd	4,500	56,897	(56,897)	–	–	–	3,861
Shenzhen Smart Electronics Company Limited	7,051	7,813	(7,813)	–	–	–	–
北京中鼎盛安科技有限公司	1,960	651	(25)	626	49.00%	49.00%	–
思卓中興(杭州)科技有限公司	22,845	19,859	(404)	19,455	49.00%	49.00%	–
上海泰捷通信技術有限公司	4,000	6,851	(6,851)	–	–	–	–
上海中興群力信息科技有限公司	2,000	11,439	713	12,152	40.00%	40.00%	–
ZTE Energy Co., Ltd.	300,000	287,787	15,005	302,792	23.26%	23.26%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	–	836	836	30.00%	30.00%	–
廣州市鴻昌隆實業有限公司	432	477	(477)	–	–	–	–
深圳市偉文電氣有限公司	175	130	(130)	–	–	–	–
上海與德通訊技術有限公司	2,000	1,904	(1,904)	–	–	–	–
Nanjing Piaoxun Network Technology Company Limited	533	457	(394)	63	61.00%	20.00%	–
上海歡流傳媒有限公司	1,650	1,547	19	1,566	33.00%	33.00%	–
Shenzhen Yuanxing Technology Co., Ltd.	1,850	3,421	695	4,116	25.00%	25.00%	2,000
Telecom Innovations	4,082	4,082	240	4,322	27.70%	27.70%	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	5,400	–	5,548	5,548	18.00%	40.00%	–
北京億科三友科技發展有限公司	6,844	–	5,932	5,932	20.00%	20.00%	–
Wuxi Hongtu Micro-electronic Technology Co., Ltd	21,826	–	21,826	21,826	35.00%	35.00%	–
興天通訊技術(天津)有限公司	6,000	–	5,869	5,869	30.00%	30.00%	–
		467,896	(58,942)	408,954			7,174

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

13. Investment Properties

Fair value	2013 RMB'000	2012 RMB'000
Carrying value at 1 January	**1,686,158**	—
Transfer from fixed assets and construction in progress (Note 15)	**—**	721,315
Transfer from land use rights (Note 16)	**—**	47,853
	1,686,158	769,168
Additions during the year	**130,384**	—
Revaluation gain upon transfer from owneroccupied properties to investment properties	**—**	932,669
Fair value at the date of transfer	**—**	1,701,837
Gain/(loss) from change in fair value (Note 43)	**38,704**	(15,679)
Carrying value at 31 December	**1,855,246**	1,686,158
Completed investment properties	**1,855,246**	633,289
Investment properties in progress	**—**	1,052,869
	1,855,246	1,686,158

During the year, the investment properties of the Group leased buildings to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, a related party, and other non-related parties by way of operating lease.

The investment properties of the Group were located in areas where there were active property trading markets, where market rental prices and other relevant information for properties of the same nature or similar may be obtained from the property trading market to arrive at a scientific and reasonable estimate of the fair value of the investment properties. The investment properties of the Group were valued by 深圳市天健國衆聯資產評估土地房地產估價有限公司 using the income method by reference to current leases or objective market transaction prices for similar properties in neighbouring regions and discounted amounts of expected future income. Fair value as at 31 December 2013 was RMB1,855,246,000. Change in fair value for the period was RMB38,704,000. For details please refer to Note V.43.

As at 31 December 2013, investment properties with a carrying value of RMB1,323,370,000 (31 December 2012: RMB1,136,244,000) had yet to obtain title registration certificates.

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

13. Investment Properties (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value	—	—	1,855,246	1,855,246

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000
Carrying amount at 1 January 2013	1,686,158
Additions (expenses subsequent to capitalization)	130,384
Net gain from a fair value adjustment	38,704
Carrying amount at 31 December 2013	1,855,246

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Commercial properties	Discounted cash flow method	Estimated rental value (per s.q.m and per month)	RMB24 to 477
		Rent growth (p.a.)	1% to 5%
		Long term vacancy rate	5%
		Discount rate	6%

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

14. Fixed Assets

2013

	Opening balance	Increase during the year	Decrease during the year	Exchange Rate adjustments	Closing balance
Cost					
Buildings	4,729,684	1,015,607	(130,224)	(39,858)	5,575,209
Freehold land	71,672	—	—	(11,072)	60,600
Electronic equipment	3,633,073	251,197	(241,368)	(17,951)	3,624,951
Machinery equipment	2,351,935	183,012	(145,460)	(14,814)	2,374,673
Vehicles	348,045	14,770	(46,356)	(3,662)	312,797
Other equipment	226,289	41,161	(9,781)	(10,767)	246,902
	11,360,698	1,505,747	(573,189)	(98,124)	12,195,132
Accumulated depreciation					
Buildings	660,464	154,531	(29,482)	(28,758)	756,755
Freehold land	—	—	—	—	—
Electronic equipment	2,098,494	551,100	(223,298)	(10,829)	2,415,467
Machinery equipment	1,221,680	170,231	(114,546)	(7,339)	1,270,026
Vehicles	166,988	35,747	(35,067)	(2,396)	165,272
Other equipment	114,389	32,733	(5,506)	(5,538)	136,078
	4,262,015	944,342	(407,899)	(54,860)	4,743,598
Provision for impairment					
Buildings	—	—	—	—	—
Freehold land	—	—	—	—	—
Electronic equipment	—	—	—	—	—
Machinery equipment	2,059	—	—	(1)	2,058
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	2,059	—	—	(1)	2,058
Net book value					
Buildings	4,069,220	861,076	(100,742)	(11,100)	4,818,454
Freehold land	71,672	—	—	(11,072)	60,600
Electronic equipment	1,534,579	(299,903)	(18,070)	(7,122)	1,209,484
Machinery equipment	1,128,196	12,781	(30,914)	(7,474)	1,102,589
Vehicles	181,057	(20,977)	(11,289)	(1,266)	147,525
Other equipment	111,900	8,428	(4,275)	(5,229)	110,824
	7,096,624	561,405	(165,290)	(43,263)	7,449,476

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

14. Fixed Assets (continued)

2012

	Opening balance	Increase during the year	Decrease during the year	Exchange Rate adjustments	Closing balance
Cost					
Buildings	4,346,743	793,813	(386,950)	(23,922)	4,729,684
Freehold land	78,943	—	—	(7,271)	71,672
Electronic equipment	3,343,721	580,672	(287,233)	(4,087)	3,633,073
Machinery equipment	2,372,838	239,356	(254,482)	(5,777)	2,351,935
Vehicles	353,636	27,161	(31,765)	(987)	348,045
Other equipment	205,117	34,418	(9,434)	(3,812)	226,289
	10,700,998	1,675,420	(969,864)	(45,856)	11,360,698
Accumulated depreciation					
Buildings	554,524	178,990	(69,893)	(3,157)	660,464
Freehold land	—	—	—	—	—
Electronic equipment	1,730,249	592,559	(222,673)	(1,641)	2,098,494
Machinery equipment	1,181,228	189,759	(146,510)	(2,797)	1,221,680
Vehicles	146,057	35,685	(14,132)	(622)	166,988
Other equipment	85,116	35,563	(4,813)	(1,477)	114,389
	3,697,174	1,032,556	(458,021)	(9,694)	4,262,015
Provision for impairment					
Buildings	—	—	—	—	—
Freehold land	—	—	—	—	—
Electronic equipment	—	—	—	—	—
Machinery equipment	—	2,559	(500)	—	2,059
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	—	2,559	(500)	—	2,059
Net book value					
Buildings	3,792,219	614,823	(317,057)	(20,765)	4,069,220
Freehold land	78,943	—	—	(7,271)	71,672
Electronic equipment	1,613,472	(11,887)	(64,560)	(2,446)	1,534,579
Machinery equipment	1,191,610	47,038	(107,472)	(2,980)	1,128,196
Vehicles	207,579	(8,524)	(17,633)	(365)	181,057
Other equipment	120,001	(1,145)	(4,621)	(2,335)	111,900
	7,003,824	640,305	(511,343)	(36,162)	7,096,624

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

14. Fixed Assets (continued)

2012 (continued)

Depreciation for 2013 amounted to RMB944,342,000 (2012: RMB1,032,556,000).

In 2013, transfer from construction in progress to fixed assets amounted to RMB990,780,000 (2012: RMB859,262,000) at cost.

There were no fixed assets in 2013 (2012: fixed assets with a carrying value of RMB270,006,000 were reclassified as investment properties).

As at 31 December 2013, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings As at 31 December 2013, houses and buildings with a carrying value of RMB683,394,000 were under ownership restriction (31 December 2012: Nil) as security for borrowings.

As at 31 December 2013, no machinery and equipment was under ownership restriction. (31 December 2012: machinery and equipment with a book value of RMB225,208,000 was under ownership restriction as security for borrowings).

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

As at 31 December 2013, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an, Anhui and Hengyang of Hunan in China with a net book value of approximately RMB3,687,123,000 (31 December 2012: RMB3,464,499,000).

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

15. Construction in progress

2013

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Transfer to investment properties during the year	Closing balance	Source of funds
Staff quarters	Nil	32,946	5,215	32,605	–	5,556	Internal funds
Sanya R&D Base Project	Nil	3,603	2,768	–	–	6,371	Internal funds
Equipment installation	Nil	38,389	–	3,017	–	35,372	Internal funds
Xi'an District 2 Phase I	Nil	683,394	306,675	897,000	–	93,069	Internal funds
Xi'an Technology Park Site A10	Nil	8,995	63,414	–	72,409	–	Internal funds
Technology Park C3 R&D Centre	Nil	15,861	42,114	–	57,975	–	Internal funds
Heyuan R&D training Center Phase I	Nil	9,459	4,393	–	–	13,852	Internal funds
Industrial Park North Phase II	Nil	94	–	–	–	94	Internal funds
Nanjing District 3 Phase I	Nil	–	643	–	–	643	Internal funds
Xi'an District 2 Phase II	Nil	–	194	–	–	194	Internal funds
Nanjing District 2 Phase II	Nil	–	161	–	–	161	Internal funds
Nanjing staff quarters Phase II	Nil	–	4,173	–	–	4,173	Internal funds
Other projects	Nil	31,646	44,450	58,158	–	17,938	Internal funds
Total:		824,387	474,200	990,780	130,384	177,423	

2012

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Transfer to investment properties during the year	Closing balance	Source of funds
Nanjing R&D Centre	Nil	730	729	1,459	–	–	Internal funds
Shanghai R&D Centre Phase II	Nil	759	–	759	–	–	Internal funds
Staff quarters	Nil	613,485	158,461	739,000	–	32,946	Internal funds
Sanya R&D Base Project	Nil	2,041	1,562	–	–	3,603	Internal funds
Equipment installation	Nil	135,383	9,700	106,694	–	38,389	Internal funds
Xi'an District 2 Phase I	Nil	504,556	178,838	–	–	683,394	Internal funds
Xi'an Technology Park Site A10	Nil	175,763	65,173	–	231,941	8,995	Internal funds
Technology Park C3 R&D Centre	Nil	120,379	114,850	–	219,368	15,861	Internal funds
Heyuan R&D training Center Phase I	Nil	87	9,372	–	–	9,459	Internal funds
Industrial Park North Phase II	Nil	94	–	–	–	94	Internal funds
Others	Nil	27,185	15,811	11,350	–	31,646	Internal funds
Total:		1,580,462	554,496	859,262	451,309	824,387	

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

As at 31 December 2013, no construction in progress was under ownership restriction (31 December 2012: construction in progress with a book value of RMB683,394,000 was under ownership restriction as they had been pledged as security for borrowings.

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

16. Intangible assets

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Cost				
Software	438,971	148,863	(123,666)	464,168
Technology know-how	10,689	1,906	(5,990)	6,605
Land use right	990,174	209,671	(11,067)	1,188,778
Operating concessions	222,905	109,678	—	332,583
	1,662,739	470,118	(140,723)	1,992,134
Accumulated amortization				
Software	312,928	60,270	(46,642)	326,556
Technology know-how	4,831	1,250	(4,313)	1,768
Land use right	74,824	21,138	(1,176)	94,786
Operating concessions	176,796	149,151	—	325,947
	569,379	231,809	(52,131)	749,057
Net book value				
Software	126,043	88,593	(77,024)	137,612
Technology know-how	5,858	656	(1,677)	4,837
Land use right	915,350	188,533	(9,891)	1,093,992
Operating concessions	46,109	(39,473)	—	6,636
	1,093,360	238,309	(88,592)	1,243,077
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use right	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Book value				
Software	126,043	88,593	(77,024)	137,612
Technology know-how	5,858	656	(1,677)	4,837
Land use right	909,028	188,533	(9,891)	1,087,670
Operating concessions	46,109	(39,473)	—	6,636
	1,087,038	238,309	(88,592)	1,236,755

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

16. Intangible assets (continued)

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Cost				
Software	387,537	173,930	(122,496)	438,971
Technology know-how	6,984	3,705	—	10,689
Land use right	950,235	240,815	(200,876)	990,174
Operating concessions	335,490	—	(112,585)	222,905
	1,680,246	418,450	(435,957)	1,662,739
Accumulated amortization				
Software	288,433	71,603	(47,108)	312,928
Technology know-how	4,435	396	—	4,831
Land use right	63,005	17,233	(5,414)	74,824
Operating concessions	123,105	53,691	—	176,796
	478,978	142,923	(52,522)	569,379
Net book value				
Software	99,104	102,327	(75,388)	126,043
Technology know-how	2,549	3,309	—	5,858
Land use right	887,230	223,582	(195,462)	915,350
Operating concessions	212,385	(53,691)	(112,585)	46,109
	1,201,268	275,527	(383,435)	1,093,360
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use right	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Book value				
Software	99,104	102,327	(75,388)	126,043
Technology know-how	2,549	3,309	—	5,858
Land use right	880,908	223,582	(195,462)	909,028
Operating concessions	212,385	(53,691)	(112,585)	46,109
	1,194,946	275,527	(383,435)	1,087,038

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

16. Intangible assets (continued)

Amortisation of intangible assets in 2013 amounted to RMB231,809,000 (2012: RMB142,923,000).

At 31 December 2013, intangible assets with a book value of RMB23,650,000 (31 December 2012: RMB24,171,000) were subject to ownership restriction as they had been pledged as security for borrowings.

As at 31 December 2013, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB647,083,000 (31 December 2012: RMB476,871,000).

There was no land use rights reclassified as investment properties in 2013 (2012: carrying value of land use rights with carrying value of RMB47,853,000 reclassified as investment properties).

Deferred development costs are analysed as follows:

2013

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Handsets	**291,077**	**96,989**	**98,710**	**289,356**
System Products	**2,155,857**	**934,039**	**447,104**	**2,642,792**
	2,446,934	**1,031,028**	**545,814**	**2,932,148**

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	238,900	130,130	77,953	291,077
System Products	1,686,710	754,234	285,087	2,155,857
	1,925,610	884,364	363,040	2,446,934

Deferred development costs accounted for 12.3% of total research and development costs in 2013 (2012: 9.1%).

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

17. 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:

	2013	2012
Deferred tax assets		
Unrealized profits arising on consolidation	**117,100**	148,805
Provision for impairment in inventory	**131,522**	109,550
Foreseeable contract losses	**2,710**	2,640
Amortization of deferred development costs	**87,447**	60,990
Provision for warranties and returned goods	**57,758**	28,101
Provision for retirement benefits	**14,370**	8,902
Deductible tax losses	**591,006**	499,344
Accruals	**190,092**	171,683
Overseas taxes pending deduction	**156,572**	188,590
Share option scheme expenses	**4,456**	—
	1,353,033	1,218,605

	2013年	2012年
Deferred tax liabilities		
Revaluation gains of investment properties	**139,900**	139,900

Deductible tax losses of unrecognized deferred tax assets:

	2013	2012
Deductible tax losses	**10,030,817**	7,927,125

Deductible tax losses of unrecognized deferred tax assets expiring in the following periods:

	2013	2012
2013	**—**	2,188
2014	**20,328**	20,328
2015	**1,040,884**	1,040,884
After 2015	**8,969,605**	6,863,725
	10,030,817	7,927,125

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

17. Deferred tax assets/liabilities (continued)

Temporary differences in items of assets or liabilities:

	2013	2012
Deductible temporary differences		
Unrealized profits arising on consolidation	289,901	483,076
Provision for inventory impairment	1,525,129	1,143,864
Foreseeable contract losses	105,908	193,877
Capitalization of deferred development costs	689,764	411,818
Provision for maintenance and returned goods	490,417	246,692
Provision for retirement benefits	95,806	99,932
Accruals	1,153,143	1,187,364
Overseas taxes pending deduction	1,043,813	1,257,267
Share option scheme expenses	29,707	—
	5,423,588	5,023,890
Deductible temporary differences		
Revaluation gain of investment properties	932,669	932,669

18. Provision for impairment of assets

2013

	Opening balance	Provision for the Closing year	Decrease during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	2,979,412	1,167,414	(57,632)	(255,025)	3,834,169
Including: Trade receivables	2,894,611	1,167,414	(56,082)	(254,725)	3,751,218
Long-term receivables	84,801	—	(1,550)	(300)	82,951
Provision for impairment of inventories	1,143,864	530,313	(50,609)	(98,439)	1,525,129
Provision for impairment of Fixed assets	2,059	—	—	(1)	2,058
Provision for impairment of intangible assets	6,322	—	—	—	6,322
	4,131,657	1,697,727	(108,241)	(353,465)	5,367,678

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

18. Provision for impairment of assets (continued)

2012

	Opening balance	Provision for the Closing year	Decrease during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	2,682,078	378,295	(47,811)	(33,150)	2,979,412
Including: Trade receivables	2,600,429	378,295	(47,684)	(36,429)	2,894,611
Long-term receivables	81,649	—	(127)	3,279	84,801
Provision for impairment of inventories	1,074,135	307,448	(173,441)	(64,278)	1,143,864
Provision for impairment of Fixed assets	—	2,559	—	(500)	2,059
Provision for impairment of intangible assets	6,322	—	—	—	6,322
	3,762,535	688,302	(221,252)	(97,928)	4,131,657

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.

19. Other non-current assets

	2013	2012
Prepayments for project and equipment	**217,270**	217,482
Risk compensation fund	**3,396,897**	3,157,077
Others	**198,430**	229,744
	3,812,597	3,604,303

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

20. Short-term loans

		2013		2012		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**4,715,950**	**4,715,950**	2,013,000	2,013,000	
	USD	**1,206,556**	**7,356,253**	1,463,901	9,201,347	
	EUR	**24,207**	**203,799**	—	—	
	INR	**2,076,400**	**204,933**	2,309,334	265,416	
Guaranteed loans	USD	**—**	**—**	895,207	5,626,824	
Bill discounted loans	RMB	**102,000**	**102,000**	603,051	603,051	Note 1
Pledged loans	RMB	**—**	**—**	213,969	213,969	Note 2
	USD	**1,000**	**6,097**	—	—	
			12,589,032		17,923,607	

At 31 December 2013, the annual interest rate of the above loans ranged from 1.54%–14.25% (31 December 2012: 1.30%–12.75%).

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

Note 2: Pledged loans were loans secured by time deposits.

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

21. Financial liabilities at fair value through current profit and loss

	2013	2012
Derivative financial liability	**61,659**	99,630
Hedging instruments — current portion	**6,120**	6,109
	67,779	105,739

Descriptions of hedging instruments and related hedging:

	2013	2012
Interest rate swap agreement	**10,406**	16,856
Non-current portion	**4,286**	10,747
Current portion	**6,120**	6,109

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and the net gain of RMB5,784,000 was included in shareholders' equity.

	2013	2012
Net fair value (gain)/loss included in shareholders' equity	**(5,784)**	12,736
Net (gain)/loss cash flow hedging	**(5,784)**	12,736

22. Bills payable

	2013	2012
Bank acceptance bills	**4,071,009**	6,069,555
Commercial acceptance bills	**4,427,012**	5,408,547
	8,498,021	11,478,102

Bills payable due in the 2014 amounted to RMB8,498,021,000 (31 December 2012: RMB11,478,102,000). As at 31 December 2013, the balance of this item included an amount of RMB4,038,000 payable to corporate shareholders or related parties holding 5% or more of the Company's voting rights (31 December 2012: RMB2,844,000). For details 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)

23. Trade payables

An aging analysis of the trade payables are as follows:

	2013	2012
0 to 6 months	**15,853,456**	17,605,286
7 to 12 months	**144,334**	177,299
1 to 2 years	**181,730**	267,454
2 to 3 years	**258,957**	31,811
Over 3 years	**54,057**	34,027
	16,492,534	18,115,877

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

As at 31 December 2013, trade payables included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB280,393,000 (31 December 2012: RMB220,873,000). For details please refer to Note VI "The relationships and transactions with related parties".

24. Advances from customers

	2013	2012
Advanced payments for system project work	**1,890,385**	1,886,887
Advanced payments for terminals	**885,981**	1,219,751
	2,776,366	3,106,638

As at 31 December 2013, advances from customers included amounts due to shareholders or related parties holding 5% or more in the voting share amounting RMB11,745,000 (31 December 2012: RMB6,618,000). For details 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)

25. Salary and welfare payables

Salaries payable to employees

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	**1,440,042**	**9,453,597**	**(9,388,946)**	**1,504,693**
Staff welfare	**19,891**	**199,095**	**(213,545)**	**5,441**
Social insurance	**56,292**	**1,441,528**	**(1,428,768)**	**69,052**
Including: Pension Insurance	**40,650**	**881,361**	**(873,016)**	**48,995**
Medical Insurance	**15,250**	**454,543**	**(452,528)**	**17,265**
Unemployment Insurance	**(78)**	**53,986**	**(52,680)**	**1,228**
Working Injuries Insurance	**205**	**24,317**	**(23,069)**	**1,453**
Maternity Insurance	**265**	**27,321**	**(27,475)**	**111**
Housing funds	**27,182**	**383,967**	**(366,677)**	**44,472**
Labour union fund and employee education fund	**803,119**	**303,161**	**(267,932)**	**838,348**
	2,346,526	**11,781,348**	**(11,665,868)**	**2,462,006**

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	1,579,721	11,026,154	(11,165,833)	1,440,042
Staff welfare	43,502	627,489	(651,100)	19,891
Social insurance	60,642	1,535,103	(1,539,453)	56,292
Including: Pension Insurance	42,950	931,913	(934,213)	40,650
Medical Insurance	16,941	469,526	(471,217)	15,250
Unemployment Insurance	(25)	73,678	(73,731)	(78)
Working Injuries Insurance	631	27,729	(28,155)	205
Maternity Insurance	145	32,257	(32,137)	265
Housing funds	25,648	386,712	(385,178)	27,182
Labour union fund and employee education fund	699,519	370,278	(266,678)	803,119
	2,409,032	13,945,736	(14,008,242)	2,346,526

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

25. Salary and welfare payables (continued)

Provision for retirement benefits

	2013 RMB'000	2012 RMB'000 (Restated)
Obligations under defined benefit plan	**95,806**	99,932

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the scheme, employees are entitled to retirement benefits equivalent to 0% to 50% of their last salary at retirement age.

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悦管理諮詢(深圳)有限公司 using the expected benefit accrual unit approach at 31 December 2013.

Major actuarial assumptions applied as at the balance sheet date are as follows:

	2013
Discount rate (%)	**4.75%**
Expected salary increase (%)	**5.50%**

A quantitative sensitivity analysis of significant assumptions applied as at 31 December 2013 is set out as follows:

	Increase %	Increase/(decrease) in Obligations under defined benefit plan RMB'000	Decrease %	Increase/(decrease) in Obligations under defined benefit plan RMB'000
Discount rate (%)	**0.25%**	**(3,467)**	**0.25%**	**3,627**
Expected salary increase (%)	**1.00%**	**12,455**	**1.00%**	**(10,539)**

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits.

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

25. Salary and welfare payables (continued)

Provision for retirement benefits (continued)

Relevant plans recognised in the income statement are as follows:

	2013 RMB'000
Interest expenses	4,178
Charged to administrative expenses	4,178

Change in the present value of obligations under defined benefit plan:

	2013 RMB'000
1 January	99,932
Interest expenses	4,178
Pension paid	(1,264)
Benefit costs recognized in comprehensive income	(7,040)
31 December	95,806

Change in obligations under defined benefit plan:

2013

		Retirement costs charged to profit and loss		Remeasured gain/(loss) charged to other comprehensive income				
	1 January 2013	Net interest	Sub-total	Remuneration paid	Actuarial change arising from changes in financial assumptions	Empirical adjustments	Sub-total	31 December 2013
Obligations under defined benefit plan	99,932	4,178	4,178	(1,264)	(7,422)	382	(8,304)	95,806

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

26. Tax payable

	2013	2012
Value-added tax	(2,393,454)	(2,465,186)
Business tax	434,616	559,338
Income tax	557,059	608,336
PRC tax	348,085	271,213
Overseas tax	208,974	337,123
Individual income tax	60,350	76,259
City maintenance and construction tax	54,272	43,217
Education surcharge	43,330	29,602
Other taxes	(8,032)	(13,540)
	(1,251,859)	(1,161,974)

27. Dividend payable

	2013	2012
Dividend payable to holders of restricted shares	152	152
Dividend payable to minority shareholders	34,811	205,631
	34,963	205,783

28. Other payables

	2013	2012
Accruals	686,700	539,104
Contributions to staff housing	66,168	614,189
Payables to external parties	6,788,985	6,080,349
Deposits	28,488	22,197
Factored interests payable	84,084	104,356
Payables to employees	426,883	406,003
Others	396,836	360,995
	8,478,144	8,127,193

As at 31 December 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 to RMB24,397,000 (31 December 2012: 15,050,000). For details 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

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation	**44,765**	**67,114**	**(1,185)**	**110,694**
Provision for returned handsets	**51,257**	**130,953**	**(12,895)**	**169,315**
Provision for warranties	**195,435**	**677,989**	**(552,322)**	**321,102**
	291,457	**876,056**	**(566,402)**	**601,111**

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation	45,733	2,452	(3,420)	44,765
Provision for returned handsets	73,519	2,888	(25,150)	51,257
Provision for warranties	274,091	300,119	(378,775)	195,435
	393,343	305,459	(407,345)	291,457

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

	2013	2012
Long-term loans due within one year	**2,753,925**	506,286
Bonds payable due within one year	**—**	4,018,134
	2,753,925	4,524,420

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

		2013		2012		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**—**	**—**	500,000	500,000	
Guaranteed loans	USD	**449,692**	**2,741,731**	1,000	6,286	Note 1
Pledge loans	USD	**2,000**	**12,194**	—	—	
			2,753,925		506,286	

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

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

As at 31 December 2013, long-term loans due within one year were as follows:

	Loan Drawdown date	Due date	Currency	Interest rate (%)	Balance at the end of 2013 Foreign currency	Balance at the end of 2013 RMB equivalent	Balance at the end of 2012 Foreign currency	Balance at the end of 2012 RMB equivalent
The Export-Import Bank of China	2011.2.1	2013.2.1	RMB	Approximately 4%	–	–	500,000	500,000
Shanghai Pudong Development Bank	2011.8.11	2013.8.11	USD	Approximately 3%	–	–	1,000	6,286
Bank of China	2011.7.20	2014.7.20	USD	Approximately 2%	349,778	2,132,563	350,327	2,201,980
Bank of China	2011.8.15	2014.8.15	USD	Approximately 2%	99,914	609,168	100,051	628,871
Shanghai Pudong Development Bank	2012.11.27	2014.11.27	USD	Approximately 3%	2,000	12,194	2,000	12,194

Note 1 The guaranteed loans comprised mainly guaranteed loans provided by the Company on behalf of its wholly owned subsidiary ZTE (H.K.) Limited.

31. Long-term loans

		2013 Original currency	2013 RMB equivalent	2012 Original currency	2012 RMB equivalent	
Credit loans	RMB	1,782,000	1,782,000	2,000	2,000	
	USD	17,664	107,696	—	—	
Guaranteed loans	USD	447,109	2,725,977	—	—	Note 1
Secured loans	RMB	269,500	269,500	281,215	281,215	Note 2
	USD	—	—	28,704	180,419	
Pledged loans	RMB	500,500	500,500	513,785	513,785	Note 3
	USD	—	—	2,000	12,571	
			5,385,673		989,990	

Note 1: The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiary ZTE (H.K.) Limited.

Note 2: The secured loans included an amount of RMB269,500,000 secured by land use rights with a carrying value of RMB23,650,000 and houses and buildings with a carrying value of RMB683,394,000 provided by Xi'an Zhongxing New Software Company Limited.

Note 3: The pledged loans included an amount of RMB500,500,000 pledged against trade receivables with a carrying value of RMB750,000,000 by Xi'an Zhongxing New Software Company Limited.

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

31. Long-term loans (continued)

As at 31 December 2013, the top five long-term loans were as follows:

	Loan Drawdown date	Due date	Currency	Interest rate (%)	**Balance at the end of 2013**		Balance at the end of 2012	
					Foreign currency	**RMB equivalent**	Foreign currency	RMB equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approximately 3%	**447,109**	**2,725,977**	444,829	2,795,973
China Merchants Bank	2013.5.31	2016.5.30	RMB	Approximately 7%	**1,000,000**	**1,000,000**	–	–
Bank of China	2012.4.25	2015.4.25	RMB	Approximately 7%	**500,500**	**500,500**	513,785	513,785
ICBC	2013.5.17	2016.5.17	RMB	Approximately 6%	**490,000**	**490,000**	–	–
ICBC	2013.6.17	2016.6.17	RMB	Approximately 6%	**290,000**	**290,000**	–	–

32. Bonds payable

2013

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**	
Bonds payable	**6,107,993**	**263,597**	**(252,000)**	**6,119,590**	Note 1

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Convertible bonds	3,884,198	165,936	(4,050,134)	—
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.

33. Other non-current liabilities

	2013	2012 (Restated)
Long-term financial guarantee contract	**3,689**	3,689
Factored interests payable	**257,540**	341,719
Hedging instruments — non-current portion	**4,286**	10,747
Deferred income relating to staff housing	**1,164,994**	182,086
	1,430,509	538,241

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

34. Share capital

2013

	Opening balance	Increase/decrease during the year Note 1	Closing balance
Restricted shares			
Domestic natural person shares	**2,537**	**(2,537)**	**—**
Senior management shares	**8,724**	**(1,498)**	**7,226**
Total number of restricted shares	**11,261**	**(4,035)**	**7,226**
Unrestricted shares			
RMB Ordinary shares	**2,799,232**	**1,498**	**2,800,730**
Overseas listed foreign shares	**629,585**	**—**	**629,585**
Total number of unrestricted shares	**3,428,817**	**1,498**	**3,430,315**
Total number of shares	**3,440,078**	**(2,537)**	**3,437,541**

2012

	Opening balance	Increase/decrease during the year	Closing balance
Restricted shares			
Domestic natural person shares	9,126	(6,589)	2,537
Senior management shares	8,330	394	8,724
Total number of restricted shares	17,456	(6,195)	11,261
Unrestricted shares			
RMB Ordinary shares	2,793,037	6,195	2,799,232
Overseas listed foreign shares	629,585	—	629,585
Total number of unrestricted shares	3,422,622	6,195	3,428,817
Total number of shares	3,440,078	—	3,440,078

Note 1 In September 2013, in accordance with the regulations of the Phase I Share Incentive Scheme, the Company repurchased and cancelled a total of 2,536,742 shares subject to lock-up under the Scheme which did not fulfill the conditions for unlocking from 126 Scheme Participants. The total number of share capital changed from 3,440,078,020 shares to 3,437,541,278 shares.

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

35. Capital reserves

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,442,845	—	—	8,442,845
Share of investee results in other comprehensive income under equity method which will be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	41,260	—	—	41,260
Profit or loss arising from change in fair value of available for sale financial assets	12,625	149,231	—	161,856
Revaluation gain upon transfer from owner occupied properties to investment properties	792,769	—	—	792,769
Profit or loss arising from cash flow hedging flow attributable to effective portion of hedging	(16,856)	5,784	—	(11,072)
Share-based payment (Note 1)	—	29,707	(6,851)	22,856
Capital investment by government	80,000	—	—	80,000
Changes resulting from net liabilities arising upon remeasurement of defined benefit plan	(45,891)	7,040	—	(38,851)
	9,306,752	191,762	(6,851)	9,491,663

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

35. Capital reserves (continued)

2012 (Restated)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,410,165	32,680	—	8,442,845
Share of investee results in other comprehensive income under equity method which will be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	41,260	—	—	41,260
Profit or loss arising from change in fair value of available for sale financial assets	—	12,625	—	12,625
Revaluation gain upon transfer from owner occupied properties to investment properties	—	792,769	—	792,769
Profit or loss arising from cash flow hedging flow attributable to effective portion of hedging	(4,120)	—	(12,736)	(16,856)
Share-based payment	12,502	6,722	(19,224)	—
Capital investment by government	80,000	—	—	80,000
Changes resulting from net liabilities arising upon remeasurement of defined benefit plan	(54,336)	8,445	—	(45,891)
	8,485,471	853,241	(31,960)	9,306,752

Note 1 Total current expenses of equity-settled share-based payments for 2013 amounted to RMB29,707,000. In September 2013, the Company repurchased 2,536,742 restrictive shares not qualifying for unlocking from 126 scheme participants and cancelled such shares in accordance with provisions of the Phase I Share Incentive Scheme, and a charge of RMB6,850,946 was made to the capital reserve.

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

36. Surplus reserves

2013

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing**
Statutory surplus reserves	**1,587,430**	**25,765**	**—**	**1,613,195**

2012

	Opening balance	Increase during the year	Decrease during the year	Closing
Statutory surplus reserves	1,587,891	—	(461)	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.

37. Retained profits

	2013	2012
Retained profits at the beginning of the year	**7,705,022**	10,545,984
Net profit/(loss)	**1,357,657**	(2,840,962)
Less: Statutory surplus reserves	**(25,765)**	—
Proposed final dividend	**(103,126)**	—
Retained profits at the end of the year	**8,933,788**	7,705,022

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.

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

38. Operating revenue and costs

Operating revenue is analysed as follows:

	2013	2012 (Restated)
Revenue	74,748,695	83,870,879
Other income	485,029	247,995
	75,233,724	84,118,874

Operating cost is analysed as follows:

	2013	2012
Costs of sales	52,898,371	63,894,239
Other operating expenses	227,533	197,307
	53,125,904	64,091,546

Principal operations by product:

	2013		2012	
	Revenue	Cost	Revenue (Restated)	Cost
Networks	40,695,724	25,491,802	41,602,641	29,677,097
Terminals	21,702,058	18,486,979	28,818,562	24,230,696
Telecommunications software, services and other products	12,350,913	8,919,590	13,449,676	9,986,446
	74,748,695	52,898,371	83,870,879	63,894,239

Principal operations by geography:

	2013		2012	
	Revenue	Cost	Revenue (Restated)	Cost
The PRC	35,192,875	23,832,345	39,269,137	28,974,782
Asia (excluding the PRC)	13,834,004	10,205,134	16,001,139	12,649,537
Africa	5,866,115	4,347,522	7,820,599	5,504,339
Europe, America and Oceania	19,855,701	14,513,370	20,780,004	16,765,581
	74,748,695	52,898,371	83,870,879	63,894,239

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

38. Operating revenue and costs (continued)

Details of operating revenue generated from top 5 customers in 2013 was as follows:

Name of customer	2013 Amount	2013 As a percentage of total operating revenue
Customer 1	**11,993,737**	15.94%
Customer 2	**7,406,799**	9.85%
Customer 3	**5,749,043**	7.64%
Customer 4	**1,716,800**	2.28%
Customer 5	**1,222,319**	1.63%
	28,088,698	37.34%

Sales to the top five customers of the Group generated revenue of RMB28,088,698,000 in 2013 (2012: RMB30,878,799,000), accounting for 37.34% (2012: 36.71%) of the operating revenue of the Group respectively.

39. Construction contracts

Construction contracts 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. In current year, no single contract accounted for more than 10% of the operating revenue.

40. Taxes and surcharges

	2013	2012
Business tax	**571,323**	636,812
City maintenance and construction tax	**244,370**	272,157
Education surcharge	**199,553**	202,272
Others	**64,286**	80,710
	1,079,532	1,191,951

For tax standards, please refer to Note III "Taxation".

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

41. Selling and distribution costs

	2013	2012
Wages, welfare and bonuses	3,496,095	4,054,141
Consulting and services charges	2,956,711	2,993,890
Travelling expenses	539,561	790,856
Transportation and fuel charges	503,124	552,475
Office expenses	248,675	360,407
Advertising and promotion expenses	567,876	516,256
Rental fees	442,030	461,181
Communication expenses	116,350	132,059
Others	1,133,428	1,319,368
	10,003,850	11,180,633

42. Administrative expenses

	2013	2012
Wages, welfare and bonuses	881,901	856,223
Office expenses	100,555	130,381
Amortization and depreciation charges	274,294	310,592
Taxes	164,921	151,358
Rental fees	144,029	161,297
Travelling expenses	95,185	96,874
Others	541,382	574,747
	2,202,267	2,281,472

43. Profits/(Losses) from changes in fair values

	2013	2012
Financial assets/liabilities at fair value through profit or loss	165,306	(91,717)
Including: Derivative financial instruments	174,829	(49,456)
Investment properties at fair value	38,704	(15,679)
	204,010	(107,396)

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

44. Investment income

	2013	2012
Investment gain from long-term equity investment under equity method	**34,466**	48,123
Investment gain from long-term equity investment under cost method	**22,240**	13,069
Investment (loss)/gain from the disposal of financial assets at fair value through current profit and loss	**(9,644)**	6,908
Investment gain from the disposal of available-for-sale financial assets	**667**	—
Investment gain from the disposal of equity interests	**866,677**	1,190,786
	914,406	1,258,886

As at 31 December 2013, the Company was not subject to significant restrictions in remitting its investment income.

45. Financial expenses

	2013	2012 (Restated)
Interest expenses	**1,650,437**	1,888,481
Less: Interest income	**355,958**	249,893
Loss on foreign currency exchange	**864,721**	136,113
Cash discounts and interest subsidy	**89,943**	127,956
Bank charges	**211,160**	328,023
	2,460,303	2,230,680

For 2013, interest income from the Finance Company amounted to RMB151,666,000 (2012: RMB100,484,000).

46. Impairment Losses

	2013	2012
Bad debt provisions	**1,109,782**	330,484
Inventories provisions	**479,704**	134,007
Impairment losses on fixed assets	**—**	2,559
	1,589,486	467,050

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

47. Non-operating income/Non-operating expenses

Non-operating income

	2013	2012	The amount in the non-recurring profit/loss of the period
Refund of VAT on software products (Note 1)	**2,305,836**	2,108,253	—
Others (Note 2)	**1,159,592**	973,000	594,208
	3,465,428	3,081,253	594,208

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 "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Note 2 Others include government grant, gains from contract penalties and other gains.

Non-operating expenses

	2013	2012	The amount in the non-recurring profit/loss of the period
Compensation	**48,731**	2,993	48,731
Loss arising from the disposal of non-current assets	**18,066**	19,446	18,066
Others	**77,694**	39,852	77,694
	144,491	62,291	144,491

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

48. Income tax

	2013	2012
Current income tax	**528,635**	711,190
Deferred income tax	**(134,428)**	(89,769)
	394,207	621,421

Reconciliation between income tax and total profit/(loss) was a follows:

	2013	2012
Total profit/(loss)	**1,827,843**	(1,983,200)
Tax at statutory tax rate (Note 1)	**456,961**	(495,800)
Effect of different tax rates applicable to certain subsidiaries	**(428,015)**	(63,206)
Adjustment to current tax in previous periods	**(51,790)**	(40,047)
Profits and losses attributable to jointly-controlled entities and associates	**(8,708)**	(19,195)
Income not subject to tax	**(336,735)**	(303,867)
Expenses not deductible for tax	**120,598**	216,111
Utilization of tax losses from previous years	**(59,620)**	(59,414)
Unrecognized tax losses	**701,516**	1,386,839
Tax charge at the Group's effective rate	**394,207**	621,421

Note 1 The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. 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.

49. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company for the year 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 year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (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 years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year are assumed to have been converted on the date of issue.

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

49. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

	2013	2012
Earnings		
Net profit/(loss) attributable to ordinary shareholders of the Company for the year	**1,357,657**	(2,840,962)
Shares		
Weighted average number of ordinary shares of the Company	**3,437,541**	3,430,952
Diluting effect — weighted average number of ordinary shares Stock option	**1,767**	—
Adjusted weighted average number of ordinary shares of the Company	**3,439,308**	3,430,952

During the reporting period, 1,767,000 stock options granted by the company Company gave rise to potentially dilutive ordinary shares.

50. Other comprehensive income

	2013	2012 (Restated)
Change in fair values of cash flow hedging instruments	**5,784**	(12,736)
Change in fair values of available for sale financial assets	**169,639**	30,792
Appreciation of owned properties reclassified to investment properties upon valuation on the date of reclassification	**—**	792,769
Defined benefit plan	**7,040**	8,445
Differences arising from foreign currency translation	**(461,725)**	(52,445)
	(279,262)	766,825

51. Notes to cash flow statement

	2013	2012 (Restated)
Cash received in connection with other operating activities:		
Interest income	**355,958**	249,893
Cash paid in connection with other operating activities:		
Selling and distribution costs	**6,212,889**	6,869,445
Administrative expenses and research and development costs	**1,515,596**	2,372,982

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

52. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement:

Reconciliation of net profit/(loss) to cash flows from operating activities:

	2013	2012
Net profit/(loss)	**1,433,636**	(2,604,621)
Add: Provision for impairment of assets	**1,589,486**	467,050
Depreciation of fixed assets	**944,342**	1,032,556
Amortisation of intangible assets and deferred development costs	**777,623**	505,963
Amortisation of long-term deferred assets	**23,251**	10,411
Loss on disposal of fixed assets, intangible assets and other long-term assets	**18,066**	19,446
(Gain)/loss from changes in fair value	**(204,010)**	107,396
Finance expenses	**2,063,087**	2,024,594
Investment income	**(914,406)**	(1,258,886)
Increase in deferred tax assets	**(134,428)**	(89,769)
Increase in deferred tax liabilities	**—**	139,900
Decrease/(increase) in inventories	**(1,681,392)**	3,411,983
(Increase)/decrease in operating receivables	**5,912,039**	(4,114,258)
(Increase)/decrease in operating payables	**(7,724,630)**	4,754,242
Cost of share-based payment	**29,707**	6,722
Decrease/(increase) in cash not immediately available for payments	**442,207**	(2,862,713)
Net cash flow from operating activities	**2,574,578**	1,550,016

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

52. Supplemental information on cash flow statement (continued)

(2) Disposal of subsidiaries information

	2013	
	ZNV	**Wuxi Zhongxing**
Consideration for the disposal of subsidiaries	**1,292,374**	**101,400**
Disposal of cash and cash equivalents received by subsidiaries	**1,292,374**	**101,400**
Less: Disposal of cash and cash equivalents held by subsidiaries	**285,973**	**25,993**
Disposal of net cash received by subsidiaries	**1,006,401**	**75,407**
Disposal of net assets of subsidiaries	**632,212**	**134,293**
Current assets	**1,097,744**	**229,169**
Non-current assets	**117,893**	**86,069**
Current liabilities	**(583,425)**	**(180,945)**

(3) Change in cash and cash equivalents:

	2013	2012
Cash		
Including: Cash on hand	**24,760**	2,123
Bank deposit readily available	**20,093,514**	22,657,512
Cash and cash equivalents at end of year	**20,118,274**	22,659,635

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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	30.78%	30.78%	19222451-8

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin 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. 11.

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
南京中興群力資訊科技有限公司	Subsidiary of an associate of the Company	69837419-3
Zhongxing Energy (Inner Mongolia) Company Limited	Subsidiary of an associate of the Company	69594973-X
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

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship	Organisation number
中興能源（天津）節能服務有限公司	Indirect subsidiary of an associate of the Company	55948745-4
鄂爾多斯市雲端科技有限公司	Indirect subsidiary of an associate of the Company	59198864-6
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 controlling shareholder	58273445-X
中興儀器（深圳）有限公司	Subsidiary of the Company's controlling controlling shareholder	58919362-5
深圳市中興環境儀器有限公司	Subsidiary of the Company's controlling controlling shareholder	76195848-3
上海中興派能能源科技有限公司	Subsidiary of the Company's controlling controlling shareholder	69582625-4
深圳中興創新材料技術有限公司	Subsidiary of the Company's controlling controlling shareholder	05277993-3
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company for which a supervisor of the Company's controlling shareholder acted as director	71522427-8
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 shareholders of the Company's controlling shareholder	76678817-X
CASIC Shenzhen (Group) Company, Limited	Subsidiary of a company for which a Director of the Company acted as director	74516580-3
深圳市航太歐華科技發展有限責任公司	Subsidiary of a company for which a Director of the Company acted as director	75567912-X

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship	Organisation number
Shenzhen Aerospace Guangyu Industrial Company Limited	Company for which a Director of the Company acted as director	19217503-1
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	76591251-1
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
中興長天資訊技術(南昌)有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	67796807-2
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
杭州中興發展有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	77355476-9
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
Shenzhen Hekang Investment Management Company Limited	Company for which a Director of the Company acted as director	56278177-7
Zhongxing Development Company Limited	Company for which the Chairman of the Company concurrently acted as chairman	75048467-3
北京市天元網路技術股份有限公司*	Company for which the Independent Director of the Company concurrently acted as independent director	70003931-X

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship	Organisation number
深圳中興科揚節能環保股份有限公司	Company for which a connected natural person of the Company acted as director	66419173-5
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Company for which a connected natural person of the Company acted as chairman	N/A

* An Independent Director of the Company has ceased to be the independent director of this company as from December 2012, and the company has ceased to be a relating party of the Company as from December 2013.

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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:

	2013 Amount	2013 Percentage (%)	2012 Amount	2012 Percentage (%)
Shenzhen Zhongxing Information Company Limited	**1,069**	**–**	8,140	0.01
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**2,658**	**–**	2,910	–
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**2,370**	**–**	950	–
Zhongxing Intelligent Transport System (Wuxi) Company Limited**	**–**	**–**	19,543	0.02
ZTE Software Technology (Nanchang) Company Limited	**135**	**–**	3	–
Mobi Antenna Technologies (Shenzhen) Company Limited	**61**	**–**	202	–
Shenzhen Weigao Semiconductor Company Limited***	**–**	**–**	6,432	0.01
南京中興群力資訊科技有限公司	**1,197**	**–**	2,390	–
普興移動通訊設備有限公司	**109,868**	**0.15**	125,836	0.15
Zhongxing Energy (Inner Mongolia) Company Limited	**2**	**–**	–	–
北京協力超越科技有限公司	**127**	**–**	15	–
中興長天資訊技術(南昌)有限公司	**–**	**–**	2	–
Zhongxing Energy (Hubei) Company Limited	**–**	**–**	211	–
中興軟件技術(瀋陽)有限公司	**–**	**–**	44	–
上海與德通訊技術有限公司***	**–**	**–**	693	–
Shenzhen Yuanxing Technology Co., Ltd.	**–**	**–**	10	–
深圳市中興昆騰有限公司	**2,850**	**–**	998	–
上海歡流傳媒有限公司	**411**	**–**	–	–
ZTE Energy Co,. Ltd.	**6,604**	**0.01**	–	–
深圳市航太歐華科技發展有限責任公司	**49,882**	**0.07**	–	–
Telecom Innovations	**1,048**	**–**	–	–
興天通訊技術(天津)有限公司	**7,404**	**0.01**	–	–
深圳市中興環境儀器有限公司	**1,740**	**–**	–	–
南京中興和泰酒店管理有限公司	**9**	**–**	–	–
中興九城網絡科技無錫有限公司	**1,648**	**–**	–	–
深圳中興創新材料技術有限公司	**10**	**–**	–	–
深圳中興科揚節能環保股份有限公司	**17**	**–**	–	–
Zhongxing Development Company Limited	**44**	**–**	2	–
Shenzhen Fudekang Electronics Company Limited***	**–**	**–**	202	–
	189,154	**0.24**	168,583	0.19

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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)

In 2013, sales to related parties accounted for 0.24% of the Group's total sales. (2012: 0.19%).

** A senior management member of the Company resigned as a senior management personnel of Zhongxing Intelligent Transport System (Wuxi) Company Limited on 27 December 2011, therefore Zhongxing Intelligent Transport System (Wuxi) Company Limited ceased to be a related party of the Company as from 27 December 2012.

*** Shenzhen Changfei Investment Company Limited ("Changfei") has been deconsolidated from the Group accounts with effect from December 2012. The associate companies of Changfei, including Shenzhen Weigao Semiconductor Company Limited, 上海與德通訊技術有限公司, Shenzhen Jufei Optoelectronics Company Limited, Shenzhen Decang Technology Company Limited and Shenzhen Fudekang Electronics Company Limited have 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:

	2013		2012	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**227,609**	**0.58**	235,557	0.51
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**200,396**	**0.51**	177,884	0.39
Shenzhen Zhongxing Information Company Limited	**3,363**	**0.01**	2,069	–
Xi'an Microelectronics Technology Research Institute	**–**	**–**	354	–
Shenzhen Zhongxing Xinyu FPC Company Limited	**62,105**	**0.16**	118,356	0.26
Wuxi KaiEr Technology Company Limited****	**30,728**	**0.08**	124,246	0.27
Shenzhen Decang Technology Company Limited***	**–**	**–**	35,166	0.08
Shenzhen Fudekang Electronics Company Limited***	**–**	**–**	18,115	0.04
ZTE Software Technology (Nanchang) Company Limited	**9,066**	**0.02**	21,393	0.05
Shenzhen Jufei Optoelectronics Co., Ltd.***	**–**	**–**	6,576	0.01
Mobi Antenna Technologies (Shenzhen) Company Limited	**426,865**	**1.08**	278,106	0.60
Zhongxing Xinzhou Complete Equipment Company Limited	**–**	**–**	82	–
Shenzhen Shenglongfeng Industrial Company Limited	**28,056**	**0.07**	31,851	0.07
Shenzhen Weigao Semiconductor Company Limited***	**–**	**–**	35,788	0.08
Shenzhen Yuanxing Technology Co., Ltd.	**–**	**–**	12,364	0.03
南京中興群力資訊科技有限公司	**–**	**–**	52	–
Huatong Technology Company Limited	**37,318**	**0.09**	52,128	0.11
Shenzhen Aerospace Guangyu Industrial Company Limited	**20,684**	**0.05**	2,280	–
CASIC Shenzhen (Group) Company Limited	**–**	**–**	2,586	0.01
深圳市航太歐華科技發展有限責任公司	**10,598**	**0.03**	400	–
上海歡流傳媒有限公司	**296**	**–**	–	–
北京億科三友科技發展有限公司	**1,540**	**–**	–	–
中興能源（天津）節能服務有限公司	**6,209**	**0.02**	–	–
北京市天元網絡技術股份有限公司	**1,181**	**–**	–	–
深圳市中興昆騰有限公司	**3,800**	**0.01**	–	–
西安中興和泰酒店管理有限公司	**1,498**	**–**	–	–
Zhongxing Energy (Shenzhen) Company Limited	**1,873**	**–**	1,006	–
Zhongxing Energy (Tianjin) Company Limited	**1,029**	**–**	1,020	–
中興儀器（深圳）有限公司	**–**	**–**	3,477	0.01
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	**29,815**	**0.08**	13,126	0.03
南京中興和泰酒店管理有限公司	**2,080**	**0.01**	1,233	–
上海市和而泰酒店投資管理有限公司	**3,808**	**0.01**	2,466	0.01
	1,109,917	**2.81**	1,177,681	2.56

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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)

In 2013, purchases from related parties accounted for 2.81% of the Group's total purchases (2012: 2.56%).

**** In November, Wuxi Zhongxing was deconsolidated from the financial statements, and Wuxi KaiEr Technology Company Limited and Wuxi Hongtu Micro-electronic Technology Co., Ltd, associates of Wuxi, ceased to be related parties of the Group. The connected transactions with the two said companies set out above comprised only transactions with the Group conducted during the period when they were related parties of the Group.

(2) Leasing with related parties:

Lease of properties to related parties:

2013

	Property leased	Starting date	Ending date	Lease gain recognized for the year
Zhongxing Development Company Limited	Office2,146	1/1/2013	12/31/2014	2,146
北京協力超越科技有限公司	Office	1/1/2013	3/31/2013	11
深圳中興科揚節能環保股份有限公司	Office	1/1/2013	12/31/2014	139
	Office	1/1/2013	6/30/2014	172
中興綠色農業有限公司*****	Office	1/1/2013	6/30/2014	236
普興移動通訊設備有限公司	Office	1/1/2013	8/31/2015	85
中興儀器(深圳)有限公司******	Office	1/1/2013	12/31/2014	293
深圳市中興昆騰有限公司	Office	1/1/2013	4/30/2013	403
南京中興群力資訊科技有限公司	Office	4/1/2013	3/31/2014	155
	Office	10/1/2013	9/30/2014	112
上海歡流傳媒有限公司	Office	1/1/2013	6/30/2014	313
Wuxi Hongtu Micro-electronic Technology Co., Ltd,****	Office	1/1/2013	6/30/2013	180
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	Property and equipment and facilities	7/1/2012	6/30/2013	4,040
	Property and equipment and facilities	7/1/2013	6/30/2014	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
	Property and equipment and facilities	7/1/2013	6/30/2014	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
	Property and equipment and facilities	7/1/2013	6/30/2014	7,232
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
	Property and equipment and facilities	7/1/2013	6/30/2014	8,859

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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)

2012

	Property leased	Starting date	Ending date	Lease gain recognized for the year
Zhongxing Development Company Limited	Office	1/1/2011	12/31/2012	1,696
北京協力超越科技有限公司	Office	1/1/2011	12/31/2012	37
Shenzhen Zhongxing WXT Equipment Company Limited	Office	8/9/2011	3/31/2012	17
Zhongxing Energy (Shenzhen) Company Limited	Office	12/1/2011	3/31/2012	150
Zhongxing Energy (Hubei) Company Limited	Office	7/1/2011	6/30/2014	211
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	12/1/2011	11/30/2014	293
Shenzhen Zhongxing Hetai Hotel Investment 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	4,970
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	2,948

***** 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 for the change of parties in a lease contract on 1 January 2013, whereby the original lessee Zhongxing Energy (Hubei) Company Limited was changed to 中興綠色農業有限公司. The modified agreement was effective upon execution.

****** Xi'an Zhongxing New Software Company, Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and Zhongxing Energy (Hubei) Company Limited and 中興儀器(深圳)有限公司 entered into an agreement for the change of parties in a lease contract on 1 January 2013, whereby the original lessee Shenzhen Zhongxingxin Telecommunications Equipment Company Limited was changed to 中興儀器(深圳)有限公司. The modified agreement was effective upon execution.

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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:

2013

	Property leased	Starting date	Ending date	Lease cost recognized for the year
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**Office**	**4/18/2010**	**4/17/2013**	**2,624**
	Office	**4/18/2013**	**4/17/2015**	**6,203**
Zhongxing Development Company Limited	**Office**	**4/18/2010**	**4/17/2013**	**12,081**
	Office	**4/18/2013**	**4/17/2015**	**32,140**
Chongqing Zhongxing Development Company Limited	**Office**	**1/1/2012**	**12/31/2014**	**8,405**
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**	**606**
三河中興物業服務有限公司	**Office**	**12/18/2012**	**12/17/2015**	**136**

2012

	Property leased	Starting date	Ending date	Lease cost recognized for the year
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	8,827
Zhongxing Development Company Limited	Office	4/18/2007	4/17/2013	40,645
Chongqing Zhongxing Development Company Limited	Office	1/1/2012	12/31/2014	8,930
三河中興發展有限公司	Office	8/1/2011	3/17/2013	1,101
三河中興物業服務有限公司	Office	8/1/2011	3/17/2013	271

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(3) Guarantees for related parties:

Receiving guarantees from related parties

In 2013 and 2012, no guarantee was provided by related parties to the Group.

(4) Transfer of equity interests to related parties

	2013	2012
Wuxi Hongtu Micro-electronic Technology Co., Ltd****	–	1,425
Zhongxing Development Company Limited	–	25,174
	–	26,599

(5) Transfer of assets to related parties

		2013	2012
Wuxi Hongtu Micro-electronic Technology Co., Ltd****	Sale of intangible assets	–	25,310
Wuxi Hongtu Micro-electronic Technology Co., Ltd****	Sale of fixed assets	–	466
		–	25,776

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(6) Other major related transactions

	2013		2012	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Remuneration of key management personnel	**19,062**	**0.16%**	9,272	0.07%

Notes:

(i)	Commercial transactions with related parties:	Commercial transactions with related parties was conducted by the Group at market price
(ii)	Leasing property from related parties	Office space was leased to the aforesaid related parties by the Group during the year and lease income of RMB45,936,000 (2012: RMB16,500,000) was recognized in accordance with relevant lease lease contracts. Office space was leased to the Group by the aforesaid related parties during the year and lease expenses of RMB RMB62,368,000 (2012: RMB59,774,000) was recognized in accordance with relevant lease lease contracts.
(iii)	Guarantee for related parties	This year, the Company has not provided new guarantees for related parties.
(iv)	Other major related transactions	The total amount of remuneration (in the form of monetary amounts physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB19,062,000 (2012: RMB9,272,000). The corresponding cost for share-based payment was RMB1,543,000 (2012: Nil).

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties

(1) In December 2012, the Group entered into a purchase agreement for a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries for the purchase of raw materials for use in production. For details of purchases conducted during the year, please refer to Note VI.5 (1). The maximum amounts of total purchases by the Group from the said related companies for the years 2014–2015 are estimated at RMB1,000 million and RMB1,100 million (before VAT), respectively.

(2) In December 2012, the Group entered into a purchase agreement for a term of 3 years with Mobi Antenna Technologies (Shenzhen) Company Limited for the purchase of raw materials for use in production. For details of purchases conducted during the year, please refer to Note VI.5 (1). The maximum amounts of total purchases by the Group for the years 2014–2015 are estimated at RMB800 million and RMB900 million (before VAT), respectively.

(3) In April 2013, the Group entered into a purchase agreement for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiary for the purchase of hotel services. For details of purchases conducted during the year, please refer to Note VI. 5 (1). The maximum amount of purchase of hotel services from 1 July 2013 to 30 June 2014 is estimated at RMB90 million.

(4) In January 2013, the Group entered into a lease agreement for a term of 2 years with Zhongxing Development Company Limited. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB21.46 million.

(5) In January 2013, the Group entered into a lease agreement for a term of 2 years with 深圳中興科揚節能環保股份有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB139,000.

(6) In January 2013, the Group entered into a lease agreement for a term of 1.5 years with 深圳中興科揚節能環保股份有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB86,000.

(7) In January 2013, the Group entered into a lease agreement for a term of 1.5 years with 中興綠色農業有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB130,000.

(8) In January 2013, the Group entered into a lease agreement for a term of 2 years and 8 months with 普興移動通訊設備有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 and 2015 are estimated at approximately RMB92,000 and RMB62,000, respectively.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(9) In January 2013, the Group entered into a lease agreement for a term of 2 years with 中興儀器（深圳）有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB293,000.

(10) In April 2013, the Group entered into a lease agreement for a term of 1 year with 南京中興群力資訊科技有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB52,000.

(11) In October 2013, the Group entered into a lease agreement for a term of 1 year with 南京中興群力資訊科技有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The maximum annual rental income for 2014 is estimated at approximately RMB335,000.

(12) In January 2013, the Group entered into a lease agreement for a term of 1.5 year with 上海歡流傳媒有限公司. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at approximately RMB156,000.

(13) In July 2013, the Group entered into a lease agreement for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiary. For details of rental income incurred during the year, please refer to Note VI. 5 (2). The annual rental income for 2014 is estimated at RMB24 million.

(14) In April 2013, the Group entered into a lease agreement for a term of 2 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. For details of rental expenses during the year, please refer to Note VI.5 (2). The rental for the years 2014–2015 are estimated at RMB8,827,000 and RMB2,575,000, respectively.

(15) In April 2013, the Group entered into a lease agreement for a term of 2 years with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The rental for the years 2014–2015 are estimated at RMB45,733,000 and RMB13,339,000, respectively.

(16) In January 2012, the Group entered into a lease agreement for a term of 3 years with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The maximum rental for 2014 is estimated at RMB8,031,000.

(17) In December 2012, the Group entered into a lease agreement for a term of 3 years with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The maximum annual rental fee for the years 2014-2015 is estimated at approximately RMB606,000.

(18) In December 2012, the Group entered into a lease agreement for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The rental for 2014 and 2015 are estimated at approximately RMB136,000 and RMB136,000, respectively.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	2013	2012
Bills receivable	深圳市航太歐華科技發展有限責任公司	**84,312**	117,871
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**610**	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**120**	—
		85,042	117,871
Trade receivables	深圳市航太歐華科技發展有限責任公司	**5,598**	13,651
	Zhongxing Development Company Limited	**52**	—
	上海中興派能能源科技有限公司	**28**	—
	中興九城網路科技無錫有限公司	**1,922**	—
	鄂爾多斯市雲端科技有限公司	**1**	1
	興天通訊技術（天津）有限公司	**8,631**	—
	深圳中興創新材料技術有限公司	**5**	—
	Shenzhen Zhongxing Information Company Limited	**9**	598
	普興移動通訊設備有限公司	**81,048**	100,819
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**1,031**	346
	Shenzhen Zhongxing Xinyu FPC Company Limited	**85**	85
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**961**	680
	北京協力超越科技有限公司	**9**	8
	Xi'an Microelectronics Technology Research Institute	**9**	9
	Mobi Antenna Technologies (Shenzhen) Company Limited	**127**	58
	南京中興群力資訊科技有限公司	**—**	648
	深圳市中興昆騰有限公司	**2,936**	577
		102,452	117,480
Prepayment	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**493**	484
	南京中興群力資訊科技有限公司	**186**	—
	Shenzhen Zhongxing Information Company Limited	**229**	357
	Wuxi Kaier Technology Company Limited****	**—**	147,840
		908	148,681
Dividend receivable	Shenzhen Yuanxing Technology Co., Ltd.	**400**	400

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2013	2012
Other receivables	南京市中興和泰酒店投資管理有限公司	2	—
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	1,820	—
	杭州中興發展有限公司	304	—
	Nanjing Piaoxun Network Technology Company Limited	22	—
	Wuxi Hongtu Micro-electronic Technology Co., Ltd,****	—	4,924
		2,148	4,924
Bills payable	Wuxi Kaier Technology Company Limited****	—	1,048
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	270
	Shenzhen Zhongxing Xinyu FPC Company Limited	3,588	1,526
	南京中興群力資訊科技有限公司	450	—
		4,038	2,844
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	56,507	65,376
	普興移動通訊設備有限公司	1,433	—
	深圳市航太歐華科技發展有限責任公司	9,170	—
	中興能源(天津)節能服務有限公司	5,538	—
	Shenzhen Aerospace Guangyu Industrial Company Limited	2,000	—
	南京中興群力資訊科技有限公司	150	—
	中興九城網路科技無錫有限公司	56	—
	Wuxi Kaier Technology Company Limited****	—	17,138
	Shenzhen Zhongxing Xinyu FPC Company Limited	6,649	556
	Mobi Antenna Technologies (Shenzhen) Company Limited	159,768	79,773
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	24,238	31,508
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	183	592
	Shenzhen Zhongxing WXT Equipment Company Limited	327	328
	Shenzhen Zhongxing Information Company Limited	4,531	5,212
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176
	Shenzhen Shenglongfeng Industrial Company Limited	9,667	9,075
	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
		280,393	220,873

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2013	2012
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,327
	深圳市航太歐華科技發展有限責任公司	**4,858**	—
	普興移動通訊設備有限公司	**1,048**	777
	Xi'an Microelectronics Technology Research Institute	**2**	2
	北京協力超越科技有限公司	**155**	98
	南京中興群力資訊科技有限公司	**352**	302
	中興軟件技術(瀋陽)有限公司	**3**	—
	深圳市中興環境儀器有限公司	**—**	112
		11,745	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

Amounts 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)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	2013	2012
Wuxi Kaier Technology Company Limited****	**—**	324
南京中興和泰酒店管理有限公司	**3,305**	2,269
上海市和而泰酒店投資管理有限公司	**12,366**	10,608
北京億科三友科技發展有限公司	**51**	—
西安中興和泰酒店管理有限公司	**8,675**	1,849
	24,397	15,050

(2) Interest expenses

	2013	2012
Wuxi Kaier Technology Company Limited****	**24**	17
Shenzhen Decang Technology Company Limited***	**—**	27
南京中興和泰酒店管理有限公司	**34**	18
上海市和而泰酒店投資管理有限公司	**132**	102
北京億科三友科技發展有限公司	**32**	—
西安中興和泰酒店管理有限公司	**11**	2
	233	166

(3) Release of loans and advances — release of loans

	2013	2012
北京億科三友科技發展有限公司	**5,773**	—
Wuxi Kaier Technology Company Limited****	**—**	48,900
	5,773	48,900

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(4) Release of loans and advances — discounted bills

	2013	2012
Wuxi Kaier Technology Company Limited****	—	75,928
Shenzhen Shenglongfeng Industrial Company Limited	3,174	3,789
北京億科三友科技發展有限公司	491	—
Shenzhen Weigao Semiconductor Company Limited***	—	996
	3,665	80,713

As at 31 December 2013, all of the aforesaid discounted bills were issued by companies within the Group. Assets and liabilities arising therefrom have been set off on consolidation of the Group account. As at 31 December 2012, issuers of discounted bills with a balance of approximately RMB47,872,000 were companies independent of the Group. Such balance was presented as Other Receivables. Issuers of discounted bills with a balance of approximately RMB31,845,000 were Group companies. Assets and liabilities arising therefrom have been set off on consolidation of the Group account.

(5) Interest income from loans and bills discounting

	2013	2012
Wuxi Kaier Technology Company Limited****	4,224	7,616
北京億科三友科技發展有限公司	538	—
Shenzhen Weigao Semiconductor Company Limited***	—	135
Shenzhen Decang Technology Company Limited***	—	1,920
Shenzhen Fudekang Electronics Company Limited***	—	34
Shenzhen Shenglongfeng Industrial Company Limited	373	127
	5,135	9,832

(6) Interest receivable

	2013	2012
北京億科三友科技發展有限公司	13	—
Wuxi Kaier Technology Company Limited****	—	96
	13	96

(7) Interest payable

	2013	2012
南京中興和泰酒店管理有限公司	1	1
西安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	4
	6	5

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VII. SHARE-BASED PAYMENT

1. Overview

	2013	2012
Total amount of employee service in consideration for which share based payments were made	524,023	1,106,794

Equity-settled share-based payments are as follows:

	2013	2012
Accumulated amount of equity-settled share-based payments in capital reserves	29,707	—
Total costs of equity-settled share-based payments in the year	29,707	6,722

2. Share incentive scheme

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the Listed Companies' Regulation Department I of CSRC had confirmed it had no objection to the Company convening a general meeting to consider the share option incentive scheme in accordance with the Administrative Measures on Share Incentives of Listed Company (Trial) (《上市公司股權激勵管理辦法(試行)》). On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at Eighth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013 Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price, subject to the conditions of exercise. The source of 2 shares under the Scheme shall be shares of the Company issued to the Participants by the Company by way of placing. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the company's shares or the actual controller of the Company and their spouse or blood relative.

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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

The share options shall be valid for a period of 5 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69/share. The share options not exercisable due to failing to fulfill the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity (ROE);

(2) The growth rate of net profit attributable the shareholders of the listed company (The growth rate of net profit).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	from 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2013

The fair value of the share options granted in 2013 amounted to RMB524,023,000, among which the share options tariff confirmed by the Company in 2013 amounted to RMB29,707,000.

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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

(2) The conditions for the exercise of the granted share options: (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Estimated dividend payment (RMB)		0.18	0.18	0.18
Volatility (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

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VIII. 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 RMB44,253,000). 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 RMB19,026,000) 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 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 judgement.

   The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated. No additional provision in respect of the litigation was made.

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 Shenzhen 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 the first trial judgement 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 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 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.

   In July 2009, China Construction Fifth instituted a 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 judgement in November 2012 which ruled contract amounts of approximately RMB14,497,000 together with interest accrued thereon and losses incurred as a 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 interest 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 judgement.

   The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

Notes to Financial Statements

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VIII. CONTINGENT EVENTS (continued)

3. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned 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 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 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.

   The Company, based on the advice from the Group's legal counsel, the ultimate outcome of this claim cannot be reliably estimated.

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.

   The Company, based on the advice from the Group's legal counsel, believes that the Company has a valid defense against the allegation and, accordingly, have not provided for any claim arising from the litigation.

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VIII. CONTINGENT EVENTS (continued)

5. 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 patents 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 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337.

   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.

   The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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VIII. CONTINGENT EVENTS (continued)

6. On 3 January 2012, wholly-owned subsidiary ZTE DO BRAZIL LTDA ("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 (approximately RMB194 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 judgement 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. On 13 January 2014, the tax bureau of Sao Paulo State resolved to rescind the aforesaid administrative penalty notice with effect from 1 June 2014 pursuant to Order No. 56045/2010 and Administrative Regulation No. CAT154/2010.

7. 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 interest and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB250 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. On 18 September 2013, ZTE Brazil was notified of the ruling by the level 1 administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State.

   The Company, based on the advice from the Group's legal counsel, has made a provision of BRL522,000,000 (approximately RMB13,552,000) for this claim.

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VIII. CONTINGENT EVENTS (continued)

8. In May 2012, the U.S. Flashpoint Technology Inc. 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 product 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. On 1 October 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337.

   The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

9. In July 2012, Technology Properties Limited LLC 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. On 6 September 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 19 February 2014, ITC announced the final decision on the case that the Company and ZTE USA did not infringe upon Section 337.

   The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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VIII. CONTINGENT EVENTS (continued)

10. In November 2012, ZTE Brazil, a wholly-owned subsidiary of the Company, filed an application with 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 RMB81,400,500). On 7 February 2013, Civil Court of Brasilia ruled that given that there was no obvious dispute over obligation between the said Brazilian company and any other company and no sign of bankruptcy, the freeze on the assets was suspended.

    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 demanded compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB215 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

    The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

11. In October and December 2013, Pragmatus Mobile LLC filed a claim with the Federal District Court of Delaware and ITC, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights of its map and related Wi-Fi application. Defendants included other companies in the industry. In the case filed with the District Court, damages for losses and payments of legal fees were demanded of the defendants although no specific amount of compensation was named. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against certain of the Company's and ZTE USA's products which allegedly infringed upon the patent rights. 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.

    The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

12. As at 31 December 2013, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,022,304,000 (31 December 2012: RMB7,814,811,000).

13. As at 31 December 2013, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB46,311,000 (31 December 2012: RMB65,179,000). The aforesaid guarantee will expire in September 2018.

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IX. COMMITMENTS

	2013	2012
Capital commitments		
Contracted but not provided of	**264,314**	484,417
Authorised by the Board but not yet contracted	**21,566,513**	21,600,404
	21,830,827	22,084,821
Investment commitments		
Contracted but performance not completed	**17,304**	41,712

X. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the profit distribution proposal recommended by the Board of Directors, the Company shall pay a cash dividend of RMB0.3 (before tax) for every 10 shares held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2013. The profit distribution proposal is pending consideration and approval at the general meeting of the Company.

XI. 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:

	2013	2012
Within one year (including first year)	**389,625**	432,442
In the first to second years (including second year)	**308,149**	332,859
In the second to third years (including third year)	**184,079**	300,111
After the third year	**205,126**	358,590
	1,086,979	1,424,002

2. Financial instruments convertible into shares and outstanding at the end of the period

The Company has no financial instruments convertible into shares and outstanding as at 31 December 2013.

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. 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, gain/(losses) from changes in fair values, 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 cum warrants, 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.

"ZTEMT" products comprise mainly mobile phones and their related accessories. They had not been classified as a separate item but had only been included in "Telecommunications software, services and other products" in 2012 and prior years as handsets had only accounted for a small proportion of the overall sales of this item. However, the proportion of handsets in the overall sales started to increase in 2013, therefore the Company reclassified the item to Terminals and related the data breakdown by product for the same period of 2012, accordingly.

Notes to Financial Statements

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2013

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	40,695,724	–	12,473,948	53,169,672
Sales of goods and services	–	21,702,058	361,994	22,064,052
Sub-total	40,695,724	21,702,058	12,835,942	75,233,724
Segment results	9,208,655	17,946	1,797,837	11,024,438
Unallocated revenue				3,465,428
Unallocated cost				(10,440,196)
Finance costs				(2,460,303)
Loss from changes in fair values				204,010
Investment income from associates and joint ventures				34,466
Total profit				1,827,843
Income tax				(394,207)
Net profit				1,433,636
Total assets				
Segment assets	33,992,931	10,767,784	10,721,797	55,482,512
Unallocated assets				44,596,985
Sub-total				100,079,497
Total liabilities				
Segment liabilities	8,626,156	800,876	2,720,797	12,147,829
Unallocated liabilities				64,305,979
Sub-total				76,453,808
Supplemental information				
Depreciation and amortization expenses	944,029	503,428	297,759	1,745,216
Capital expenditure	1,453,649	775,196	458,500	2,687,345
Asset impairment losses	859,791	458,506	271,189	1,589,486

Notes to Financial Statements

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2012 (restated)

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	41,602,641	–	13,511,582	55,114,223
Sales of goods and services	–	28,818,562	186,089	29,004,651
Sub-total	41,602,641	28,818,562	13,697,671	84,118,874
Segment results	5,806,439	349,102	1,499,203	7,654,744
Unallocated revenue				3,081,253
Unallocated cost				(10,429,244)
Finance costs				(2,230,680)
Loss from changes in fair values				(107,396)
Investment income from associates and joint ventures				48,123
Total profit				(1,983,200)
Income tax				(621,421)
Net profit				(2,604,621)
Total assets				
Segment assets	36,036,839	12,947,554	11,865,132	60,849,525
Unallocated assets				46,596,781
Sub-total				107,446,306
Total liabilities				
Segment liabilities	10,298,502	1,064,313	3,390,784	14,753,599
Unallocated liabilities				70,099,868
Sub-total				84,853,467
Supplemental information				
Depreciation and amortization expenses	766,053	530,653	252,224	1,548,930
Capital expenditure	1,367,961	947,600	450,401	2,765,962
Asset impairment losses	230,989	160,008	76,053	467,050

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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2013	2012 (Restated)
The PRC	**35,635,964**	39,455,593
Asia (excluding the PRC)	**13,849,495**	16,062,667
Africa	**5,866,115**	7,820,599
Europe, America and Oceania	**19,882,150**	20,780,015
	75,233,724	84,118,874

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2013	2012
The PRC	**11,486,177**	11,014,888
Asia (excluding the PRC)	**1,003,837**	1,084,075
Africa	**335,313**	343,192
Europe, America and Oceania	**896,663**	789,003
	13,721,990	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 major customers

Operating revenue of RMB11,993,737,000 was derived from telecommunications systems contracts and terminal revenue from one major customers (2012: RMB20,057,277,000 from two major customer).

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis

The main financial instruments of the Group, except for derivatives, include bank loans, cash, etc. The main purpose of these financial instruments is to finance 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 foreign exchange risk and interest rate risk in the Group's operation.

The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk.

Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

2013

Financial assets

	Financial assets at fair value through current profit and loss	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	20,903,035	—	20,903,035
Financial assets at fair value through current profit and loss	217,454	—	—	217,454
Available-for-sale financial assets	—	—	1,630,271	1,630,271
Bills receivable	—	3,500,671	—	3,500,671
Trade receivables and long-term receivables	—	21,760,019	—	21,760,019
Factored trade receivables and factored long-term receivables	—	5,650,326	—	5,650,326
Other receivables excluding dividends receivable	—	1,666,645	—	1,666,645
Other non-current assets	—	3,595,327	—	3,595,327
	217,454	57,076,023	1,630,271	58,923,748

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2013 (continued)

Financial liabilities

	Financial liabilities at fair value through current profit and loss	Loans and receivables	Available-for-sale financial assets	Total
Financial liabilities at fair value through current profit and loss	61,659	—	6,120	67,779
Bank loans	—	20,728,630	—	20,728,630
Bills payables	—	8,498,021	—	8,498,021
Trade payables	—	16,492,534	—	16,492,534
Bank advances on factored trade receivables and long-term trade receivables	—	5,688,899	—	5,688,899
Other payables (excluding accruals)	—	7,791,444	—	7,791,444
Bonds payable	—	6,119,590	—	6,119,590
Other non-current liabilities	—	261,229	4,286	265,515
	61,659	65,580,347	10,406	65,652,412

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2012

Financial assets

	assets dealt with at fair value through current profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	24,126,423	—	24,126,423
Financial assets at fair value through current profit and loss	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

Financial liabilities

	liabilities dealt with at fair value through current profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Financial liabilities at fair value through current profit and loss	99,630	—	6,109	105,739
Bank loans	—	19,419,883	—	19,419,883
Bills payables	—	11,478,102	—	11,478,102
Trade payables	—	18,115,877	—	18,115,877
Bank advances on factored trade receivables and long-term trade 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

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

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, 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 accounts accounted for 32.73% (2012: 31.84%) 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 did not hold any collateral or other credit enhancements over the balances of the trade receivables. 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 10.

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analysed as follows:

2013

			Overdue for			
	Total	**Not overdue/ not impaired**	**Less than 1 year**	**1-2 years**	**2-3 years**	**Over 3 years**
Trade receivables	**21,393,257**	**3,566,625**	**15,223,232**	**2,407,100**	**196,300**	**—**
Long-term receivables	**366,762**	**366,762**	**—**	**—**	**—**	**—**
Other receivables	**1,666,645**	**—**	**1,357,563**	**199,854**	**61,510**	**47,718**

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Credit risk (continued)

2012

			Overdue for			
	Total	Not overdue/ not impaired	Less than 1 year	1-2 years	2-3 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	2,018,941	—	1,849,713	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 and 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 payable and other interest-bearing loans. With the exception of the non-current portion of bank loans, all borrowings are repayable within one year.

The maturity profile of financial assets and financial liabilities based on undiscounted contractual cash flow is summarised as follows:

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2013

Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Indefinite	Total
Financial assets at fair value through current profit and loss	217,454	–	–	–	–	–	217,454
Cash	17,827,033	3,076,002	–	–	–	–	20,903,035
Available-for-sale financial assets	–	–	–	–	–	1,630,271	1,630,271
Bills receivable	–	3,500,671	–	–	–	–	3,500,671
Trade receivables and long-term receivables	17,826,632	3,566,625	113,218	15,398	289,644	–	21,811,517
Factored trade receivables and factored long-term receivables	–	3,338,801	749,733	591,936	1,266,330	–	5,946,800
Other receivables excluding dividends receivable	1,666,645	–	–	–	–	–	1,666,645
Other non-current assets	–	–	1,076,710	743,823	1,816,475	–	3,637,008
	37,537,764	13,482,099	1,939,661	1,351,157	3,372,449	1,630,271	59,313,401

Financial liabilities

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Indefinite
Bank loans	–	15,508,467	839,379	5,023,976	–	21,371,822
Financial liabilities at fair value through current profit and loss	–	67,779	–	–	–	67,779
Bills payable	–	8,498,021	–	–	–	8,498,021
Trade payables	16,492,534	–	–	–	–	16,492,534
Bank advances on factored trade receivables and long-term trade receivable	–	3,377,374	729,055	546,622	1,120,002	5,773,053
Other payables (excluding accruals)	7,707,360	84,084	–	–	–	7,791,444
Bonds payable	–	252,000	6,252,000	–	–	6,504,000
Other non-current liabilities	50,000	–	77,597	63,935	189,065	380,597
	24,249,894	27,787,725	7,898,031	5,634,533	1,309,067	66,879,250

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2012

Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Indefinite	Total
Financial assets at fair value through current profit and loss	44,919	61,378	—	—	—	—	106,297
Cash	22,438,153	1,688,270	—	—	—	—	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
	41,483,837	15,283,734	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	Indefinite
Bank loans	–	18,684,521	13,290	919,466	193,458	19,810,735
Financial liabilities at fair value through current profit and loss	–	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 trade receivable	–	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 payable	–	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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XI. OTHER SIGNIFICANT MATTERS (continued)

4. 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, in the light of changes in economic conditions and in the risk profiles of relevant assets. 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 years 2013 and 2012.

The Group monitors capital using a gearing ratio, which is interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities. The gearing ratios as at the ends of the reporting periods were as follows:

	2013 RMB'000	2012 RMB'000
Interest-bearing bank borrowings	**20,728,630**	19,419,883
Interest-bearing bonds	**6,119,590**	10,126,127
Bank advances on factored trade receivables and long-term trade receivables	**5,688,899**	8,187,416
Total interest-bearing liabilities	**32,537,119**	37,733,426
Total equity	**23,625,689**	22,592,839
Total equity and interest-bearing liabilities	**56,162,808**	60,326,265
Gearing ratio	**57.9%**	62.5%

Market risk

Market risk refers to the risk of changes in the fair value or future cash flow of financial instruments. Market risks include mainly interest rate risks and exchange rate risks.

Notes to Financial Statements

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or 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 liabilities bearing interest at floating rates.

On 31 December 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.

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 1.54% and 14.25%. 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. As at 31 December 2013, taking into account interest rate swaps for a nominal principal amount of USD100 million (2012: USD100 million) already executed, approximately 30% (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 total/net profit	Increase/ (decrease) in shareholders' equity*
2013	**0.25%**	**(36,641)**	**4,065**
	(0.25%)	**36,641**	**(4,065)**
2012	0.25%	(31,593)	5,764
	(0.25%)	31,593	(5,764)

* excluding retained earnings.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Market risk (continued)

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 revenue 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.

The following table demonstrates the sensitivity of a reasonably possible change in exchange 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	Increase/ (decrease) in total/ net profit
2013		
Weaker RMB against USD	**3%**	**37,160**
Stronger RMB against USD	**(3%)**	**(37,160)**
2012		
Weaker RMB against USD	3%	31,570
Stronger RMB against USD	(3%)	(31,570)

	Increase/(decrease) in EUR exchange rate	Increase/ (decrease) in total/ net profit
2013		
Weaker RMB against EUR	**5%**	**185,118**
Stronger RMB against EUR	**(5%)**	**(185,118)**
2012		
Weaker RMB against EUR	5%	155,594
Stronger RMB against EUR	(5%)	(155,594)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Fair value of financial assets and financial liabilities 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 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, risk profiles and outstanding term. As at 31 December 2013, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity 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 31 December 2013, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Fair value (continued)

The fair value of financial instruments is distinguished into the following levels:

Financial instruments measured at fair value:

2013

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Available-for-sale listed equity instruments	**364,479**	**—**	**—**	**364,479**
Financial assets at fair value through current profit and loss:				
Derivative financial assets	**—**	**217,454**	**—**	**217,454**
Financial liabilities at fair value through current profit and loss:				
Derivative financial liabilities	**—**	**(61,659)**	**—**	**(61,659)**
Hedging instruments	**—**	**(10,406)**	**—**	**(10,406)**

2012

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Available-for-sale listed equity instruments	38,420	—	—	38,420
Financial assets at fair value through current profit and loss:				
Investment in equity instruments	44,919	—	—	44,919
Derivative financial assets	—	61,378	—	61,378
Financial liabilities at fair value through current profit and loss:				
Derivative financial liabilities	—	(99,630)	—	(99,630)
Hedging instruments	—	(16,856)	—	(16,856)

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XII. COMPARATIVE DATA

As stated in Note II.2, the early adoption of certain ASBEs resulted in the revision of the accounting treatment and presentation of certain items and the adjustment of certain amounts in the financial statements to comply with the new requirement. Certain data for the prior year have also been reclassified and restated to comply with the requirements in presentation and accounting treatment for the year under review.

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	2013			2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**15,818,279**	**1.0000**	**15,818,279**	13,494,688	1.0000	13,494,688
USD	**2,369,780**	**6.0969**	**14,448,309**	2,603,285	6.2855	16,362,945
EUR	**346,588**	**8.4189**	**2,917,893**	436,480	8.3176	3,630,467
Others			**846,006**			1,481,956
			34,030,487			34,970,056

Aging analysis of trade receivables:

	2013	2012
Within 1 year	**24,930,582**	27,903,156
1-2 years	**6,126,670**	4,005,785
2-3 years	**2,553,484**	1,436,695
Over 3 years	**3,192,083**	3,658,604
	36,802,819	37,004,240
Less: bad debt provision for trade receivables	**2,772,332**	2,034,184
	34,030,487	34,970,056

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

	2013				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	455,008	1	455,008	100	493,355	1	493,355	100
For which bad debt provision has been collectively made								
0–6 months	20,944,486	57	–	–	25,706,014	69	–	–
7–12 months	3,986,096	11	138,797	3	2,145,615	6	109,689	5
13–18 months	4,292,764	12	544,511	13	1,710,459	5	163,492	10
19–24 months	1,831,038	5	326,279	18	2,262,339	6	150,959	7
2–3 years	2,521,816	7	423,080	17	1,393,169	4	383,394	28
Over 3 years	2,771,611	7	884,657	32	3,293,289	9	733,295	22
	36,347,811	99	2,317,324	6	36,510,885	99	1,540,829	4
	36,802,819	100	2,772,332	8	37,004,240	100	2,034,184	5

Movements in bad-debt provisions for trade receivables:

			Decrease during the year		
	Opening balance	Provision for the year	Write back	Write off	Closing balance
2013	2,034,184	841,840	—	(103,692)	2,772,332
2012	2,027,737	37,656	(24,644)	(6,565)	2,034,184

There was no write-back or recovery of individually significant trade receivables, for which bad debt provision had been individually made, in 2013 (2012: Nil).

Top 5 accounts of trade receivables as at 31 December 2013 were as follows:

Customer	Amount	As a percentage of the total amount of trade receivables
Customer 1	5,237,209	14.23%
Customer 2	3,047,401	8.28%
Customer 3	2,432,296	6.61%
Customer 4	2,384,264	6.48%
Customer 5	2,063,544	5.61%
Total	15,164,714	41.21%

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

As at 31 December 2013, trade receivables amounting to RMB86,587,000 were due from shareholders holding 5% or more in the voting shares (31 December 2012: RMB101,437,000).

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 RMB2,084,134,000 (31 December 2012: RMB3,545,295,000). Bank advances on factored trade receivables amounts to RMB2,122,707,000 (31 December 2012: RMB3,548,713,000)

2. Other receivables

The aging analysis of other receivables:

	2013	2012
Within 1 year	**7,176,627**	3,286,587
1 to 2 years	**2,218,545**	968,400
2 to 3 years	**818,400**	63,202
Over 3 years	**241,061**	232,859
	10,454,633	4,551,048

Top 5 accounts of other receivables as at 31 December 2013 were as follows:

Customer	**Amount**	**As a percentage of the total amount of trade receivables**
Customer 1	104,929	1.00%
Customer 2	34,558	0.33%
Customer 3	15,029	0.15%
Customer 4	14,922	0.14%
Customer 5	12,306	0.12%
Total	181,744	1.74%

As at 31 December 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

	2013	2012
Available-for-sale equity instruments	**373,555**	323,655

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term receivables

	2013	2012
Loans granted to subsidiaries (Note 1)	**4,151,237**	2,484,940
Installment payments for the provision of telecommunication system construction projects	**416,717**	1,251,208
Less: Bad debt provision for long-term receivables	**50,098**	51,647
	4,517,856	3,684,501

Note 1 Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments ini overseas business operations.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision for the year	Decrease during the year: Write-back	Decrease during the year: Write-off	Closing balance
2013	**51,647**	**—**	**(1,549)**	**—**	**50,098**
2012	**51,774**	**—**	**(127)**	**—**	**51,647**

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 RMB1,968,052,000 (31 December 2012: RMB3,582,669,000).

5. Long-term equity investments

	2013	2012	2012年
Equity method			
Joint ventures	(1)	**55,005**	44,559
Associates	(2)	**374,183**	349,193
Cost method			
Subsidiaries	(3)	**6,093,653**	6,191,055
Less: Provision for impairment in long-term equity investments	(4)	**92,315**	92,315
		6,430,526	6,492,492

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013

(1) Joint ventures

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
普興移動通訊設備有限公司	43,500	44,559	1,446	46,005	33.85%	50.00%	–
江蘇中興微通資訊科技有限公司	9,000	–	9,000	9,000	50.00%	50.00%	–
		44,559	10,446	55,005			–

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49.00%	49.00%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	836	137	973	30.00%	30.00%	–
ZTE Energy Co., Ltd.	300,000	302,793	13,029	315,822	23.26%	23.26%	9,461
思卓中興(杭州)科技有限公司	22,845	19,455	46	19,501	49.00%	49.00%	–
上海中興群力資訊科技有限公司	2,000	12,152	12,699	24,851	40.00%	40.00%	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,400	5,548	247	5,795	18.00%	40.00%	–
北京億科三友科技發展有限公司	6,844	5,932	(1,168)	4,764	20.00%	20.00%	–
		349,193	24,990	374,183			9,461

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
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	80.10%	80.10%	–
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%	1,586
Wuxi Zhongxing Optoelectronics Technologies Company Limited	–	6,500	(6,500)	–	–	–	–
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	40,500	10,500	30,000	40,500	83%	83%	–
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%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
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. ZTEIndonesia	15,275	15,275	–	15,275	100%	100%	–
Telrise (Cayman) Telecom Limited	21,165	21,165	–	21,165	100%	100%	–
ZTE 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. (Thailand)	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.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.	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%	–

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	278,700	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	16,000	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	45,125	28,500	16,625	45,125	95%	95%	–
深圳市中興雲服務有限公司	50,000	–	50,000	50,000	100%	100%	–
天津中興智聯科技有限公司	32,600	–	32,600	32,600	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%	–
福建海絲路科技有限公司	10,000	–	10,000	10,000	95%	95%	–
		6,191,055	(97,402)	6,093,653			1,001,586

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	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.DER.LDEC.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

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
普興移動通訊設備有限公司	43,500	43,940	619	44,559	33.85%	50%	–

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
ZTE Software (Nanchang) Company Limited	4,500	–	836	836	30%	30%	–
ZTE Energy Co., Ltd.	300,000	287,788	15,005	302,793	23.26%	23.26%	–
思卓中興(杭州)科技有限公司	22,845	19,859	(404)	19,455	49%	49%	–
上海中興群力資訊科技有限公司	2,000	11,438	714	12,152	40%	40%	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,400	–	5,548	5,548	18%	40%	–
北京億科三友科技發展有限公司	6,844	–	5,932	5,932	20%	20%	–
		321,562	27,631	349,193			–

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	156,500	106,793	263,293	100%	100%	2,023,421
Shenzhen Changfei Investment Company LImited	–	15,300	(15,300)	–	–	–	–
Nanjing ZTEsoft Technology Company Limited	89,921	45,489	44,432	89,921	80.1%	80.1%	–
Shenzhen ZNV Technology Company Limited	244,827	6,000	238,827	244,827	90%	90%	104,148
Shenzhen Special Equipment Company Limited	–	541	(541)	–	–	–	17,000
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	5,100	32,282	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	129,891
ZTE Microelectronics Technology Company Limited	102,174	15,674	86,500	102,174	100%	100%	231,240
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	1,586
Wuxi Zhongxing Optoelectronics Technologies Company Limited	6,500	6,500	–	6,500	65%	65%	1,950
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	321,407	31,666	289,741	321,407	90%	90%	231,790
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	4,000	9,110	13,110	90%	90%	1,800
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Yangzhou Zhongxing Mobile Telecom Company Limited	–	3,900	(3,900)	–	–	–	–
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%	250,000
Shenzhen Zhongxing ICT Company Limited	157,019	24,000	133,019	157,019	90%	90%	106,415

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
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 Zhongxing Hetai Hotel Investment Management Company Limited	30,000	30,000	(30,000)	–	–	–	1,617
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%	–
ZTE 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	5,395	184,738	190,133	100%	100%	–
ZTE Corporation MexicoS. DER. LDEC.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	304,068	31,691	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd.	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	449,362	404,438	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	6,600	9,900	16,500	55%	55%	8,250
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	–	300,000	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	–	10,000	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%	–
		4,481,184	1,709,871	6,191,055			3,109,108

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	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
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	(3,900)	—
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. DER.LDEC.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
	96,215	(3,900)	92,315

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

6. Operating revenue and costs

Operating revenue is analysed as follows:

	2013	2012
Revenue	**56,490,240**	65,124,944
Other income	**12,461,703**	8,907,373
	68,951,943	74,032,317

Operating cost is analysed as follows:

	2013	2012
Costs of sales	**58,376,755**	67,604,470
Other operating expenses	**3,633**	684
	58,380,388	67,605,154

Details of operating revenue generated from top 5 customers in 2013 was as follows:

Name of customer	**Amount**	**As a percentage of total operating revenue%**
Customer 1	10,535,251	15.28%
Customer 2	7,783,625	11.29%
Customer 3	6,283,484	9.11%
Customer 4	4,647,002	6.74%
Customer 5	4,227,325	6.13%
	33,476,687	48.55%

Sales to the top five customers of the Group generated revenue of RMB33,476,687,000 in 2013 (2012: RMB35,330,693,000), accounting for 48.55% (2012: 47.72%) of the sales revenue of the Group.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

7. Investment income

	2013	2012
Investment income from long-term equity investment under equity method	**35,898**	16,007
Investment income from long-term equity investment under cost method	**1,012,506**	3,120,921
Investment loss from the disposal of trading financial instruments	**(45,989)**	(11,340)
Investment income from Nationz Technologies	**20,904**	—
Investment income from the disposal of subsidiaries	**887,468**	1,591,818
	1,910,787	4,717,406

As at 31 December 2013, the Company was not subject to significant restrictions in remitting its investment income.

8. Supplemental information on the cash flow statement

Reconciliation of net profit/(loss) to cash flow from operating activities:

	2013	2012
Net profit/(loss)	**375,923**	(1,427,799)
Add: Impairment losses/(write-back)	**1,149,141**	(30,026)
Depreciation of fixed assets	**703,240**	692,437
Amortisation of intangible assets and development cost	**345,389**	191,688
Loss on disposal of fixed assets, intangible assets and other long term assets	**13,568**	9,326
Loss/(gain) from changes in fair value	**(136,906)**	85,834
Finance expenses	**1,518,191**	1,377,493
Investment income	**(1,910,787)**	(4,717,406)
Decrease/(increase) in deferred tax assets	**(180,502)**	41,112
Increase in deferred tax liabilities	**—**	138,400
(Increase)/decrease in inventories	**(1,697,335)**	2,966,531
(Increase)/decrease in operating receivables	**6,046,782**	(5,769,483)
Increase/(decrease) in operating payables	**(6,356,784)**	8,997,331
Equity settled share expenses	**29,707**	6,722
(Increase)/decrease in cash subject to ownership restrictions	**87,357**	(2,643,036)
Net cash flows from operating activities	**(13,016)**	(80,876)

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Amount for 2013
Loss from the disposal of non-current assets	(18,066)
Investment gains from disposal of long-term equity investment	866,677
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 gain realized from disposal of trading financial assets and trading financial liabilities	156,329
Gain/loss from change in fair value of investment properties	38,704
Net amount of other non-operating income and expenses	467,783
Effect of income tax	(226,714)
	1,284,713

Note 1 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:

	Amount for 2013	Reason
Refund of VAT on software products	2,305,836	In line with national policies and received on an ongoing basis
Refund of individual tax	8,712	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.

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2013

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	6.17%	RMB0.39	RMB0.39
Net profit after extraordinary items attributable to ordinary shareholders of the Company	0.33%	RMB0.02	RMB0.02

2012

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(12.43%)	RMB(0.83)	RMB(0.83)
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(18.34%)	RMB(1.22)	RMB(1.22)

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Financial assets at fair value through current profit and loss	Mainly attributable to gain arising from revaluation of fair value of certain derivative investments at the end of the period.
Available-for-sale financial assets	Mainly attributable to the acquisition of restricted shares of China All Access by the Company during the period.
Long-term trade receivables	Mainly attributable to the decrease in trade receivables that carried a longer credit period for customers for the period.
Factored long-term trade receivables	Mainly attributable to the decrease in long-term trade receivable factoring with limited recourse undertaken by the Company during the period.
Construction in progress	Mainly attributable to the transfer of certain construction in progress to fixed assets during the period.
Financial liabilities at fair value through current profit and loss	Mainly attributable to the settlement of certain derivative investments on maturity during the period.
Dividend payable	Mainly reflecting the payment of dividend declared in the previous period by certain subsidiaries during the period.
Deferred income	Mainly attributable to the increase in income-related government subsidies during the period.
Provisions	Mainly attributable to the increase in provisions for product warranties and provisions for returned handsets during the period.
Non-current liabilities due within one year	Mainly attributable to the repayment of the Bonds cum Warrants by the Company during the period.
Long-term loans	Mainly attributable to the reclassification of a syndicate loan to long-term loans for the period after securing an exemption letter. The said syndicate loan was transferred out of long-term loans at the previous year-end owing to non-compliant financial benchmarks.
Bank advances on factored long-term trade receivables	Mainly attributable to the decrease in long-term trade receivable factoring with limited recourse undertaken by the Company during the period.
Other non-current liabilities	Mainly attributable to the increase in contributions to the staff housing fund during the period.
Differences on translation of accounts expressed in foreign currencies	Mainly reflecting the effect of exchange rate volatility during the period.

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Income statement items	Analysis of reasons
Asset impairment losses	Mainly attributable to the increase in bad debt provision for trade receivables for the period.
Gain/loss arising from fair value changes	Mainly attributable to gain arising from revaluation of fair value of certain derivative investments and investment properties at the end of the period.
Non-operating expenses	Mainly attributable to the increase in compensation expenses for the period.
Income tax expenses	Mainly attributable to the combined effect of lower concessionary tax rates applicable to certain subsidiaries with substantial growth in taxable profit and the application of concessionary tax rates for software enterprises to certain subsidiaries.
Profit/loss attributable to minority interests	Mainly attributable to the deconsolidation for the period of certain subsidiaries with a higher level of minority interests, which were included in the consolidated accounts for the same period last year, after the disposal of their equity interests at the end of the previous year.
Other comprehensive income	Mainly attributable to the increase in other comprehensive income upon revaluation gains for owner-occupied properties for the same period last year and the absence of such gains for the current period.
Other comprehensive income attributable to minority interests	Mainly attributable to the deconsolidation for the period of certain subsidiaries with a higher level of minority interests, which were included in the consolidated accounts for the same period last year, after the disposal of their equity interests at the end of the previous year.

Cash flow statement items	Analysis of reasons
Net cash flow from operating activities	Mainly attributable to the decrease in expenses for the period.
Net cash flow from financing activities	Mainly attributable to the decrease in cash received from borrowings for the period.
Effect of exchange rate movements on cash	Mainly attributable to the increase in translation losses as a result of exchange rate volatility during the period.

Independent Auditors' Report

ERNST & YOUNG HUA MING
安永华明会计师事务所

To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of ZTE Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 317 to 439, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
REVENUE	5	**75,233,724**	84,118,874
Cost of sales		**(54,775,081)**	(65,545,460)
Gross profit		**20,458,643**	18,573,414
Other income and gains	5	**4,905,336**	4,609,205
Research and development costs		**(7,383,892)**	(8,829,194)
Selling and distribution expenses		**(10,158,537)**	(11,340,927)
Administrative expenses		**(2,258,739)**	(2,449,201)
Other expenses		**(2,118,997)**	(706,139)
Finance costs	7	**(1,650,437)**	(1,888,481)
Share of profits and losses of:			
Joint ventures		**1,446**	619
Associates		**33,020**	47,504
PROFIT/(LOSS) BEFORE TAX	6	**1,827,843**	(1,983,200)
Income tax expense	10	**(394,207)**	(621,421)
PROFIT/(LOSS) FOR THE YEAR		**1,433,636**	(2,604,621)
Attributable to:			
Owners of the parent	11	**1,357,657**	(2,840,962)
Non-controlling interests		**75,979**	236,341
		1,433,636	(2,604,621)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges — effective portion of changes in fair value of hedging instruments arising during the year		**5,784**	(12,736)
Changes in fair value of available-for-sale investments		**169,639**	30,792
Revaluation gain upon transfer from owner-occupied properties to investment properties		**—**	932,669
Income tax effect	40	**—**	(139,900)
Exchange differences on translation of foreign operations		**(461,725)**	(52,445)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(286,302)**	758,380
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains on defined benefit plans		**7,040**	8,445
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(279,262)**	766,825
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**1,154,374**	(1,837,796)
Attributable to:			
Owners of the parent		**1,055,746**	(2,094,862)
Non-controlling interests		**98,628**	257,066
		1,154,374	(1,837,796)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB0.39**	RMB(0.83)
Diluted		**RMB0.39**	RMB(0.83)

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

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

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**7,697,841**	8,011,028
Prepaid land lease payments	17	**1,064,021**	889,351
Intangible assets	18	**3,081,233**	2,624,944
Investment properties	16	**1,855,246**	1,686,158
Investments in joint ventures	21	**66,891**	46,814
Investments in associates	22	**411,146**	408,954
Available-for-sale investments	23	**1,630,271**	1,092,335
Long-term trade receivables	26	**366,762**	1,206,642
Factored long-term trade receivables	27	**2,311,525**	4,018,484
Deferred tax assets	40	**1,353,033**	1,218,605
Pledged deposits	31	**3,396,897**	3,157,077
Long-term prepayments, deposits and other receivables	19	**415,700**	447,226
Total non-current assets		**23,650,566**	24,807,618
CURRENT ASSETS			
Prepaid land lease payments	17	**23,649**	19,677
Inventories	24	**12,434,352**	11,442,389
Amount due from customers for contract works	25	**12,137,144**	13,666,100
Trade and bills receivables	26	**24,893,928**	26,350,396
Factored trade receivables	27	**3,338,801**	4,165,514
Prepayments, deposits and other receivables	28	**4,874,021**	5,227,077
Equity investment at fair value through profit or loss	29	**—**	44,919
Derivative financial instruments	30	**217,454**	61,378
Pledged deposits	31	**708,641**	1,380,180
Time deposits with original maturity of over three months	31	**76,120**	86,608
Cash and cash equivalents	31	**20,118,274**	22,659,635
Total current assets		**78,822,384**	85,103,873

continued/...

Consolidated Statement of Financial Position (continued)

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

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000 (Restated)
CURRENT LIABILITIES			
Trade and bills payables	32	**24,990,555**	29,593,979
Amount due to customers for contract works	25	**3,682,564**	3,459,545
Other payables and accruals	33	**15,311,007**	14,833,771
Derivative financial instruments	30	**67,779**	105,739
Interest-bearing bank borrowings	34	**15,342,957**	18,429,893
Bank advances on factored trade receivables	27	**3,377,374**	4,168,932
Bonds cum warrants	35	**—**	4,018,134
Tax payable		**557,059**	608,336
Dividends payable		**34,963**	205,783
Total current liabilities		**63,364,258**	75,424,112
NET CURRENT ASSETS		**15,458,126**	9,679,761
TOTAL ASSETS LESS CURRENT LIABILITIES		**39,108,692**	34,487,379
NON-CURRENT LIABILITIES			
Derivative financial instruments	30	**4,286**	10,747
Bonds payable	36	**6,119,590**	6,107,993
Interest-bearing bank borrowings	34	**5,385,673**	989,990
Bank advances on factored long-term trade receivables	27	**2,311,525**	4,018,484
Financial guarantee contract	47	**3,689**	3,689
Deferred tax liabilities	40	**139,900**	139,900
Provision for retirement benefits	37	**95,806**	99,932
Other long-term payables	38	**1,422,534**	523,805
Total non-current liabilities		**15,483,003**	11,894,540
Net assets		**23,625,689**	22,592,839
EQUITY			
Equity attributable to owners of the parent			
Issued capital	41	**3,437,541**	3,440,078
Reserves	43	**18,991,981**	18,016,505
Proposed final dividend	12	**103,126**	—
		22,532,648	21,456,583
Non-controlling interests		**1,093,041**	1,136,256
Total equity		**23,625,689**	22,592,839

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

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

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Shares subject to lock-up under the Share Incentive Scheme RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012													
As previously reported		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
Prior year adjustments	2.2	–	(54,336)	–	–	–	–	–	–	–	(54,336)	–	(54,336)
As restated		3,440,078	8,477,089	(4,120)	12,502	(40,537)	1,587,891	(527,696)	10,545,984	686,190	24,177,381	2,057,058	26,234,439
Loss for the year		–	–	–	–	–	–	–	(2,840,962)	–	(2,840,962)	236,341	(2,604,621)
Other comprehensive income for the year:													
Cash flow hedges, net of tax		–	–	(12,736)	–	–	–	–	–	–	(12,736)	–	(12,736)
Actuarial gains and losses on defined benefit plans (as restated)		–	8,445	–	–	–	–	–	–	–	8,445	–	8,445
Changes in fair value of available-for-sale investments		–	12,625	–	–	–	–	–	–	–	12,625	18,167	30,792
Revaluation gain upon transfer from owner occupied-properties to investment properties, net of tax		–	792,769	–	–	–	–	–	–	–	792,769	–	792,769
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(55,003)	–	–	(55,003)	2,558	(52,445)
Total comprehensive income/(loss) for the year		–	813,839	(12,736)	–	–	–	(55,003)	(2,840,962)	–	(2,094,862)	257,066	(1,837,796)
Disposal of subsidiaries		–	–	–	–	–	(461)	–	–	–	(461)	(384,860)	(385,321)
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(576,637)	(576,637)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(225,873)	(225,873)
Capital contributions by non-controlling shareholders		–	13,456	–	–	–	–	–	–	–	13,456	9,502	22,958
Final 2011 dividend declared		–	–	–	–	–	–	–	–	(686,190)	(686,190)	–	(686,190)
Share Incentive Scheme:	42												
– Equity-settled share expense		–	–	–	6,722	–	–	–	–	–	6,722	–	6,722
– Unlocking the lock-up shares		–	19,224	–	(19,224)	40,537	–	–	–	–	40,537	–	40,537
Proposed final 2012 dividend	12	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2012		3,440,078	9,323,608*	(16,856)*	–	–	1,587,430*	(582,699)*	7,705,022*	–	21,456,583	1,136,256	22,592,839

continued/…

Consolidated Statement of Changes in Equity (continued)

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

		Attributable to owners of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013												
As previously reported		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
Prior year adjustments		–	(45,891)	–	–	–	–	–	–	(45,891)	–	(45,891)
As restated		3,440,078	9,323,608	(16,856)	–	1,587,430	(582,699)	7,705,022	–	21,456,583	1,136,256	22,592,839
Profit for the year		–	–	–	–	–	–	1,357,657	–	1,357,657	75,979	1,433,636
Other comprehensive income for the year:												
Cash flow hedges, net of tax		–	–	5,784	–	–	–	–	–	5,784	–	5,784
Actuarial gains and losses on defined benefit plans		–	7,040	–	–	–	–	–	–	7,040	–	7,040
Changes in fair value of available-for-sale investments		–	149,231	–	–	–	–	–	–	149,231	20,408	169,639
Exchange differences on translation of foreign operations		–	–	–	–	–	(463,966)	–	–	(463,966)	2,241	(461,725)
Total comprehensive income/(loss) for the year		–	156,271	5,784	–	–	(463,966)	1,357,657	–	1,055,746	98,628	1,154,374
Disposal of a subsidiary	45	–	–	–	–	–	–	–	–	–	(110,224)	(110,224)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(1,524)	(1,524)
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	18,895	18,895
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(48,990)	(48,990)
Share Incentive Scheme:	42											
–Equity-settled share expense		(2,537)	–	–	22,856	–	–	–	–	20,319	–	20,319
–Unlocking the lock-up shares		–	–	–	–	–	–	–	–	–	–	–
Proposed final 2013 dividend	12	–	–	–	–	–	–	(103,126)	103,126	–	–	–
Transfer from retained profits		–	–	–	–	25,765	–	(25,765)	–	–	–	–
At 31 December 2013		3,437,541	9,479,879*	(11,072)*	22,856*	1,613,195*	(1,046,665)*	8,933,788*	103,126	22,532,648	1,093,041	23,625,689

* These reserve accounts comprise the consolidated reserves of approximately RMB18,991,981,000 (2012: RMB18,016,505,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

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

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**1,827,843**	(1,983,200)
Adjustments for:			
Finance costs	7	**1,650,437**	1,888,481
Share of profits and losses of joint ventures		**(1,446)**	(619)
Share of profits and losses of associates		**(33,020)**	(47,504)
Bank and other interest income	5	**(355,958)**	(149,409)
Dividend income	5	**(22,240)**	(13,070)
Loss on disposal of items of property, plant and equipment	6	**18,066**	19,446
Gain on disposal of equity interests	6	**(866,677)**	(1,258,081)
Fair value losses of assumed liabilities in a previous disposal of a subsidiary	6	**—**	67,295
Gain on disposal of available-for-sale investments	6	**(667)**	—
Fair value loss on equity investments held for trading	6	**9,523**	42,261
Fair value (gain)/loss on derivative instruments	6	**(174,829)**	49,456
(Gain)/loss on disposal of derivative financial instruments	6	**30,548**	(6,908)
Gain on disposal of equity investment at fair value through profit or loss	5	**(20,904)**	—
Depreciation	15	**967,593**	1,042,966
Recognition of prepaid land lease payments	17	**21,138**	17,233
Amortisation of intangible assets	18	**756,485**	488,730
Write-down of inventories to net realisable value	6	**479,704**	134,007
Impairment of trade receivables	6	**1,109,782**	330,484
Impairment of property, plant and equipment	6	**—**	2,559
Equity-settled share option expense	6	**29,707**	6,722
Changes in fair value of investment properties	6	**(38,704)**	15,679
		5,386,381	646,528
(Increase)/decrease in inventories		**(1,694,241)**	2,665,001
Decrease in the amount due from customers for contract works		**1,322,264**	922,355
Increase in trade and bills receivables		**(183,277)**	(1,607,798)
Decrease/(increase) in long-term trade receivables		**841,430**	(342,241)
Increase in factored trade receivables		**(31,355)**	(476,029)
Decrease/(increase) in prepayments, deposits and other receivables		**683,602**	(249,960)
Decrease in trade and bills payables		**(4,200,710)**	(1,240,955)
Increase in the amount due to customers for contract works		**223,019**	408,747
(Decrease)/increase in other payables and accruals		**(104,266)**	4,706,920
Decrease/(increase) in other non-current assets		**70,437**	(222,736)
Increase in provision for retirement benefits		**2,913**	5,325
Cash generated from operations		**2,316,197**	5,215,157

continued/...

Consolidated Statement of Cash Flows (continued)

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

	2013 RMB'000	2012 RMB'000
Cash generated from operations	**2,316,197**	5,215,157
Interest received	**341,563**	157,359
Interest and other finance costs paid	**(1,527,941)**	(1,752,527)
Hong Kong profits tax paid	**(6,160)**	—
PRC taxes paid	**(273,049)**	(771,427)
Overseas taxes paid	**(246,180)**	(186,752)
Dividends paid	**—**	(686,190)
Dividends paid to non-controlling shareholders	**(157,567)**	(102,558)
Net cash flows from operating activities	**446,863**	1,873,062
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to prepaid land lease payments	**(199,780)**	(246,022)
Purchases of items of property, plant and equipment	**(904,052)**	(1,257,606)
Purchases of intangible assets	**(1,233,094)**	(874,026)
Proceeds from disposal of items of property, plant and equipment	**5,955**	41,845
Acquisition of joint ventures	**(18,631)**	—
Capital contribution in associates	**(22,155)**	(97,792)
Purchases of available-for-sale investments	**(486,556)**	(336,843)
Purchases of convertible bonds	**(168,329)**	—
Proceeds from disposal of equity investment at fair value through profit or loss	**56,309**	—
Addition to other receivables	**(144,613)**	(289,516)
Disposal of subsidiaries	**1,318,667**	989,185
Dividend received from associates	**9,461**	19,994
Dividend received from available-for-sale investments	**9,977**	14,115
Settlement of derivative financial instruments	**(30,509)**	1,708
Decrease/(increase) in time deposits with original maturity of over three months	**10,488**	(1,608)
Decrease/(increase) in pledged bank deposits	**431,719**	(2,862,713)
Decrease in other non-current assets	**194,169**	522,510
Net cash flows used in investing activities	**(1,170,974)**	(4,376,769)

continued/…

Consolidated Statement of Cash Flows (continued)

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

	Notes	2013 RMB'000	2012 RMB'000
Net cash flows used in investing activities		**(1,170,974)**	(4,376,769)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of corporate bonds		**—**	5,965,213
Repayment of corporate bonds		**(4,000,000)**	—
Capital contribution by non-controlling shareholders		**18,895**	8,100
Acquisition of non-controlling interests		**(48,990)**	(90,682)
New bank loans		**23,291,362**	39,261,619
Repayment of bank loans		**(20,372,924)**	(40,920,499)
Increase in bank advances on factored trade receivables		**66,510**	312,812
Net cash flows (used in)/from financing activities		**(1,045,147)**	4,536,563
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,769,258)**	2,032,856
Cash and cash equivalents at beginning of year		**22,659,635**	20,662,089
Effect of foreign exchange rate changes, net		**(772,103)**	(35,310)
CASH AND CASH EQUIVALENTS AT END OF YEAR	31	**20,118,274**	22,659,635
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	31	**17,827,033**	22,438,153
Time deposits with original maturity of less than three months	31	**2,291,241**	221,482
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**20,118,274**	22,659,635

Statement of Financial Position

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

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**4,816,730**	5,195,753
Prepaid land lease payments	17	**369,058**	376,597
Intangible assets	18	**739,638**	739,605
Investment properties	16	**1,496,338**	1,381,593
Investments in subsidiaries	20	**10,152,575**	8,583,680
Investments in joint ventures	21	**55,005**	44,559
Investments in associates	22	**265,232**	276,139
Available-for-sale investments	23	**373,555**	323,655
Long-term trade receivables	26	**366,619**	1,199,561
Factored long-term trade receivables	27	**1,968,052**	3,582,669
Deferred tax assets	40	**762,009**	581,507
Pledged deposits	31	**3,396,897**	3,157,077
Long-term prepayments, deposits and other receivables	19	**199,744**	217,482
Total non-current assets		**24,961,452**	25,659,877
CURRENT ASSETS			
Prepaid land lease payments	17	**8,901**	8,867
Inventories	24	**7,056,518**	5,668,033
Amount due from customers for contract works	25	**7,029,635**	8,440,613
Trade and bills receivables	26	**36,881,669**	38,732,887
Factored trade receivables	27	**2,084,134**	3,545,295
Prepayments, deposits and other receivables	28	**14,444,035**	12,883,577
Equity investment at fair value through profit or loss	29	**—**	44,919
Derivative financial instruments	30	**69,300**	9,389
Pledged deposits	31	**406,892**	734,069
Cash and cash equivalents	31	**11,756,438**	15,276,437
Total current assets		**79,737,522**	85,344,086

continued/...

Statement of Financial Position (continued)

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

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)
CURRENT LIABILITIES			
Trade and bills payables	32	**44,451,968**	47,661,655
Amount due to customers for contract works	25	**2,496,029**	2,600,053
Other payables and accruals	33	**21,691,193**	19,625,334
Interest-bearing bank borrowings	34	**8,375,865**	9,303,325
Bank advances on factored trade receivables	27	**2,122,707**	3,548,713
Bonds cum warrants	35	**—**	4,018,134
Derivative financial instruments	30	**12,575**	42,325
Tax payable		**202,275**	289,624
Dividends payable		**152**	152
Total current liabilities		**79,352,764**	87,089,315
NET CURRENT ASSETS		**384,758**	(1,745,229)
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,346,210**	23,914,648
NON-CURRENT LIABILITIES			
Bonds payable	36	**6,119,590**	6,107,993
Interest-bearing bank borrowings	34	**1,780,000**	—
Bank advances on factored long-term trade receivables	27	**1,968,052**	3,582,669
Financial guarantee contract	47	**3,689**	3,689
Deferred tax liabilities	40	**138,400**	138,400
Provision for retirement benefits	37	**95,806**	99,932
Other long-term payables		**1,426,820**	534,552
Total non-current liabilities		**11,532,357**	10,467,235
Net assets		**13,813,853**	13,447,413
EQUITY			
Issued capital	41	**3,437,541**	3,440,078
Shares subject to lock-up under the Share Incentive Scheme		**—**	—
Reserves	43	**10,273,186**	10,007,335
Proposed final dividend	12	**103,126**	—
Total equity		**13,813,853**	13,447,413

Hou Weigui
Director

Shi Lirong
Director

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 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 year, 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 and solutions.

In the opinion of the directors, in accordance with Chapter 8 "Qualifications For Listing" of the Rules Governing The Listing of Securities On The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

Notes to Financial Statements

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

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

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

(b) HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).

(c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries, joint ventures and associates are included in notes 20, 21 and 22 to the financial statements.

(d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC) — Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of investment properties and financial instruments are included in notes 16 and 53 to the financial statements.

(f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

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

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(g) (continued)

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

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

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

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

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

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

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

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(h) The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The Group has early adopted the amendments in these financial statements. The amendments have had no impact on the financial position or performance of the Group.

(i) *Annual Improvements 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

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

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

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

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after 1 January 2016

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

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

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

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates or joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, investment properties, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	30 to 50 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of not more than 10 years.

Computer software

Purchased computer software is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of no more than 5 years.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Operating concession

Operating concession is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 years, being the period that the operating concession granted to the Group.

Research and development costs

All research costs are charged to the statement of profit or loss 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, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investment and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset and that loss event have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, bank advances on factored trade receivables, interest-bearing bank borrowings, financial guarantee contracts, bonds cum warrants, bonds payable, other payables and accruals, factoring costs payable and derivative financial instruments.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Bonds cum warrants

The component of bonds cum warrants that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of bonds cum warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds cum warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- 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; or

- hedges of a net investment in a foreign operation.

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 of changes in the hedging instrument's fair value 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Cash flow hedges

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

Amounts recognised in other comprehensive income are transferred to the statement of 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. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications system contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price telecommunications system contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where an economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract works.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability 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; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when 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.

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

- when the deferred tax asset relating to 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; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised 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 utilised.

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 liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to other payables or other long-term payable accounts and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, 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;

(b) from the telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis and (ii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. Arrangement consideration shall be allocated at the inception of the arrangement 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 of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Group shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the Group can determine vendor-specific objective evidence or third-party evidence of selling price, the Group shall not ignore information that is reasonably available without undue cost and effort.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to the statement of profit or loss as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Defined benefit pension scheme

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefit pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefit pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to capital reserve through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments

The Company operates a share incentive scheme (the "Share Incentive Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 42 to the financial statement.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statement of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosure, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised 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, the Group's revenue recognition policies can differ depending on the level of customisation 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 customisation and contractual terms with the customer. As a result, the Group's revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

When a customer arrangement involves multiple deliverables which 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:

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

- whether the contract that 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 arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether delivered elements have stand-alone 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.

Arrangement consideration shall be allocated at the inception of the arrangement 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. If neither vendor-specific objective evidence 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 vendor-specific objective evidence 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 support services on a stand-alone basis and therefore it has evidence to establish VSOE for both sale of goods and post-contract support.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. For instance, the determination of whether post-contract support services is more than incidental to hardware can impact on whether the hardware is accounted for based on multiple-element revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the HKAS 11 Construction Contracts, 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 recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billings are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project that are unbilled, are accumulated in the contracts in progress account included in the amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within the 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 contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. 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.

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 Revenue, where revenue is recognised provided that the entity 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; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; 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 the title in certain jurisdictions have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because the legal title or risk of loss on products has not been transferred to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when the title or risk of loss passes either on delivery or on receipt of final payment from the customer.

For further information on the Group's revenue recognition policies relating to the Group's material revenue streams, please refer to note 2.4 to the financial statements.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. 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 these subsidiaries and it is not probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred tax liability for withholding taxes. More details are set out in note 40.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment as at 31 December 2013 was approximately RMB7,697,841,000 (2012: RMB8,011,028,000). The carrying amount of intangible assets as at 31 December 2013 was RMB3,081,233,000 (2012: RMB2,624,944,000). More details are set out in notes 15 and 18.

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2013 was approximately RMB25,260,691,000 (2012: RMB27,557,038,000).

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and 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 (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2013 was RMB591,006,000 (2012: RMB499,344,000). The amount of unrecognised tax losses at 31 December 2013 was RMB10,030,817,000 (2012: RMB7,927,125,000). Further details are contained in note 40 to the financial statements.

Deferred development costs

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2013, the best estimate of the carrying amount of capitalised development costs was RMB2,932,148,000 (2012: RMB2,446,934,000).

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/write-back of in the period in which the estimate has been changed. At 31 December 2013, the carrying amount of inventories was RMB12,434,352,000 (2012: RMB11,442,389,000).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 16 to the financial statements. The carrying amount of investment properties at 31 December 2013 was RMB1,855,246,000 (2012: RMB1,686,158,000).

Provision for warranty

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns. The carrying amount of provision for warranty at 31 December 2013 was RMB490,417,000 (2012: RMB246,692,000).

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION

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

(a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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

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

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

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

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

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customers

Revenue from telecommunications systems contracts and terminals from one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2013 in the amount of RMB11,994 million (2012: two single customers individually accounted for more than 10% of the Group's consolidated revenues for 2012 in the amount of RMB20,057 million).

Notes to Financial Statements

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5. 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:

	Note	**2013** **RMB'000**	2012 RMB'000 (Restated)
Revenue			
Telecommunications system contracts		**53,169,672**	55,114,223
Sale of goods		**21,702,058**	28,818,562
Rendering of services		**361,994**	186,089
		75,233,724	84,118,874
Other income			
VAT refunds and other tax subsidies[#]		**2,314,547**	2,109,357
Dividend income		**22,240**	13,070
Bank and other interest income[##]		**355,958**	249,893
Others[###]		**1,150,880**	971,896
		3,843,625	3,344,216
Gains			
Gain on disposal of equity investment at fair value through profit or loss		**20,904**	—
Gain on disposal of available-for-sale investments		**667**	—
Gain on disposal of subsidiaries	45	**866,677**	1,194,242
Gain on deemed disposal of interest in an associate		**—**	61,223
Derivative instruments		**134,759**	6,908
Fair value gains on investment properties		**38,704**	—
Others		**—**	2,616
		1,061,711	1,264,989
		4,905,336	4,609,205

[#] 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 of the Group, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

[##] The bank and other interest income for the year ended 31 December 2013 includes the interest income generated from ZTE Group Finance Company Ltd amounted to RMB151,666,000 (2012: RMB100,484,000).

[###] Others mainly represent gains on government grants, contract penalty income and other miscellaneous income.

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6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2013 RMB'000**	2012 RMB'000
Cost of goods and services		**39,205,492**	45,255,672
Depreciation	15	**967,593**	1,042,966
Amortisation of land lease payments	17	**21,138**	17,233
Amortisation of intangible assets other than deferred development costs	18	**210,671**	125,690
Research and development costs:			
Deferred development costs amortised	18	**545,814**	363,040
Current year expenditure		**7,869,106**	9,350,518
Less: Deferred development costs		**(1,031,028)**	(884,364)
		7,383,892	8,829,194
Fair value (gains)/losses, net*:			
Derivative instruments	30	**(174,829)**	49,456
Equity investments held for trading		**9,523**	42,261
Investment properties		**(38,704)**	15,679
Impairment of trade receivables*	26	**1,109,782**	330,484
Provision for warranties	39	**808,942**	303,007
Write-down of inventories to net realisable value**		**479,704**	134,007
Impairment of items of property, plant and equipment	15	**—**	2,559
Minimum lease payments under operating leases on land and buildings		**586,059**	622,478
Contingent rental income in respect of operating leases	49(a)	**(114,309)**	(159,055)
Auditors' remuneration		**6,962**	6,985
Staff costs (including directors', chief executives' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**9,652,692**	11,653,643
Equity-settled share option expense		**29,707**	6,722
Retirement benefit scheme contributions:			
Defined benefit pension scheme	37	**4,178**	6,314
Defined contribution pension schemes		**881,361**	931,913
		10,567,938	12,598,592

Notes to Financial Statements

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6. PROFIT/(LOSS) BEFORE TAX (continued)

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

	Note	2013 RMB'000	2012 RMB'000
Foreign exchange loss*		**864,721**	136,113
Loss on disposal of items of property, plant and equipment*		**18,066**	19,446
Gain on disposal of equity investment at fair value through profit or loss		**(20,904)**	—
Gain on disposal of subsidiaries	45	**(866,677)**	(1,194,242)
Gain on deemed disposal of interest in an associate		**—**	(61,223)
Fair value losses of assumed liabilities in a previous disposal of a subsidiary		**—**	67,295
(Gain)/loss on disposal of derivative financial instruments		**30,548**	(6,908)
Gain on disposal of available-for-sale investments		**(667)**	—
Others		**—**	(2,616)

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	Group 2013 RMB'000	Group 2012 RMB'000
Interest on bank loans wholly repayable within five years		**767,697**	856,066
Interest on bonds cum warrants	35	**13,866**	165,936
Interest on bonds payable	36	**263,597**	142,781
Total interest expense on financial liabilities not at fair value through profit or loss		**1,045,160**	1,164,783
Other finance costs:			
Finance costs on trade receivables factored and bills discounted		**605,277**	723,698
		1,650,437	1,888,481

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors', chief executives' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**4,799**	4,164
Performance-related bonuses*	**1,661**	755
Equity-settled share option expense	**—**	—
Retirement benefit scheme contributions	**17**	68
	6,477	4,987

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2013	2012
	RMB'000	RMB'000
Qu Xiaohui	**130**	130
Wei Wei	**130**	130
Chen Naiwei	**130**	130
Tan Zhenhui	**130**	130
Timothy Alexander Steinert	**65**	130
Zhang Xike	**65**	—
	650	650

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance-related bonuses RMB'000	Share Incentive Scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2013						
Executive directors:						
Yin Yimin	–	376	400	–	3	779
Shi Lirong	–	570	100	–	3	673
He Shiyou	–	556	100	–	3	659
	–	1,502	600	–	9	2,111
Non-executive directors:						
Hou Weigui	–	327	475	–	–	802
Xie Weiliang	–	100	–	–	–	100
Zhang Junchao	–	100	–	–	–	100
Wang Zhanchen	–	100	–	–	–	100
Dong Lianbo	–	100	–	–	–	100
Zhang Jianheng	–	100	–	–	–	100
	–	827	475	–	–	1,302
	–	2,329	1,075	–	9	3,413
Supervisors:						
Zhang Taifeng	–	327	119	–	–	446
Xie Daxiong	–	535	356	–	2	893
He Xuemei	–	264	10	–	2	276
Zhou Huidong	–	325	11	–	2	338
Wang Yan	–	–	–	–	–	–
Xu Weiyan	–	369	90	–	2	461
Chang Qing	–	–	–	–	–	–
	–	1,820	586	–	8	2,414

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance-related bonuses RMB'000	Share Incentive Scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2012						
Executive directors:						
Yin Yimin	—	354	400	—	17	771
Shi Lirong	—	548	350	—	17	915
He Shiyou	—	511	—	—	33	544
	—	1,413	750	—	67	2,230
Non-executive directors:						
Hou Weigui	—	327	—	—	—	327
Xie Weiliang	—	100	—	—	—	100
Zhang Junchao	—	100	—	—	—	100
Lei Fanpei	—	17	—	—	—	17
Wang Zhanchen	—	100	—	—	—	100
Dong Lianbo	—	100	—	—	—	100
Zhang Jianheng	—	75	—	—	—	75
	—	819	—	—	—	819
	—	2,232	750	—	67	3,049
Supervisors:						
Zhang Taifeng	—	330	—	—	—	330
He Xuemei	—	268	—	—	—	268
Zhou Huidong	—	319	—	—	—	319
Wang Yan	—	—	—	—	—	—
Xu Weiyan	—	355	5	—	—	360
	—	1,272	5	—	—	1,277

There was no arrangement under which the directors, chief executives or supervisors waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2012: Nil) directors, chief executives or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2012: five) highest paid employees who are neither a director nor chief executive or a supervisor of the Company are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**11,935**	13,020
Performance-related bonuses	**8,928**	5,576
Retirement benefit scheme contributions	**—**	—
	20,863	18,596

The number of non-director, non-supervisor, non-chief executive and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2013	2012
RMB2,000,001 to RMB3,000,000	**2**	1
RMB3,000,001 to RMB4,000,000	**1**	3
RMB4,000,001 to RMB5,000,000	**—**	1
RMB5,000,001 to RMB6,000,000	**1**	—
RMB6,000,001 to RMB7,000,000	**1**	—
RMB7,000,001 to RMB8,000,000	**—**	—
	5	5

During the year, no director, chief executive or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, chief executives, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

	2013	2012
	RMB'000	RMB'000
Group:		
Current — Hong Kong	**50,586**	(5,380)
Current — Mainland China	**402,177**	584,672
Current — Overseas	**75,872**	131,898
Deferred (note 40)	**(134,428)**	(89,769)
Total tax charge for the year	**394,207**	621,421

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.

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10. INCOME TAX (continued)

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

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

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxing New Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2013 was 10%.

Nanjing Zhongxingxin Software Company Limited, recognised as a software enterprise in December 2009, has been 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. The current year is its fourth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing ICT Company Limited, recognised as a software enterprise in September 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 Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2013 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, recognised as a national-grade hi-tech enterprise, was granted an Important IC Design Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2013 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 the Shanghai Pudong New Area.

Shanghai Zhongxing Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2013 was 10%.

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10. INCOME TAX (continued)

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.

ZTEsoft Technology Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2013 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.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2013		2012	
	RMB'000	**%**	RMB'000	%
Profit/(loss) before tax	**1,827,843**		(1,983,200)	
Tax at the statutory tax rate	**456,961**	**25.0**	(495,800)	25.0
Lower tax rate for specific provinces or enacted by local authority	**(428,015)**	**(23.4)**	(63,206)	3.2
Adjustments in respect of current tax of previous periods	**(51,790)**	**(2.8)**	(40,047)	2.0
Profits and losses attributable to associates and joint ventures	**(8,708)**	**(0.5)**	(19,195)	1.0
Income not subject to tax	**(336,735)**	**(18.4)**	(303,867)	15.3
Expenses not deductible for tax	**120,598**	**6.6**	216,111	(10.9)
Tax losses utilised from previous years	**(59,620)**	**(3.3)**	(59,414)	3.0
Tax losses of subsidiaries not recognised	**701,516**	**38.4**	1,386,839	(69.9)
Tax charge at the Group's effective rate	**394,207**	**21.6**	621,421	(31.3)

The share of tax attributable to associates amounting to RMB18,732,000 (2012: RMB3,561,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a profit of approximately RMB340,024,000 (2012: a loss of RMB1,474,442,000) which has been dealt with in the financial statements of the Company (note 43(b)).

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12. DIVIDEND

	2013	2012
	RMB'000	RMB'000
Proposed final — RMB0.03 (2012: Nil) per ordinary share	103,126	—

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

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

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

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

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

	2013	2012
	RMB'000	RMB'000
Earnings		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	1,357,657	(2,840,962)

	Number of shares	
	2013	2012
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	3,437,541	3,430,952
Share options	1,767	—
Adjusted weighted average number of ordinary shares in issue	3,439,308	3,430,952

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14. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to their respective statutory surplus reserves (the "SSR") until this reserves reach 50% of the registered capital of these companies. Part of the SSR may be capitalised as these companies' share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Lands and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	4,713,201	88,155	6,392,844	348,045	824,387	12,366,632
Accumulated depreciation and impairment	(610,901)	(49,563)	(3,528,152)	(166,988)	—	(4,355,604)
Net carrying amount	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028
At 1 January 2013, net of accumulated depreciation and impairment	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028
Additions	52,390	8,059	443,924	14,770	529,369	1,048,512
Disposals	(89,472)	(11,270)	(53,259)	(11,289)	(54,528)	(219,818)
Transfer to investment property (note 16)	—	—	—	—	(130,384)	(130,384)
Depreciation provided during the year	(140,814)	(13,717)	(777,315)	(35,747)	—	(967,593)
Transfers	955,158	—	35,622	—	(990,780)	—
Exchange realignments	(21,458)	(714)	(19,825)	(1,266)	(641)	(43,904)
At 31 December 2013, net of accumulated depreciation and impairment	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841
At 31 December 2013:						
Cost	5,597,110	38,699	6,432,249	312,797	177,423	12,558,278
Accumulated depreciation and impairment	(739,006)	(17,749)	(3,938,410)	(165,272)	—	(4,860,437)
Net carrying amount	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group					
	Lands and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	4,318,775	106,911	6,064,536	353,636	1,580,462	12,424,320
Accumulated depreciation and impairment	(488,280)	(66,245)	(3,077,711)	(146,057)	—	(3,778,293)
Net carrying amount	3,830,495	40,666	2,986,825	207,579	1,580,462	8,646,027
At 1 January 2012, net of accumulated depreciation and impairment	3,830,495	40,666	2,986,825	207,579	1,580,462	8,646,027
Additions	13,643	52,895	761,146	27,161	608,303	1,463,148
Disposals	(40,526)	(15,367)	(167,810)	(17,634)	(53,756)	(295,093)
Transfer to investment property (note 16)	(261,163)	—	(8,843)	—	(451,309)	(721,315)
Depreciation provided during the year	(152,822)	(26,167)	(828,292)	(35,685)	—	(1,042,966)
Transfers	727,274	—	131,988	—	(859,262)	—
Exchange realignments	(14,601)	(13,435)	(7,763)	(364)	(51)	(36,214)
Impairment	—	—	(2,559)	—	—	(2,559)
At 31 December 2012, net of accumulated depreciation and impairment	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028
At 31 December 2012:						
Cost	4,713,201	88,155	6,392,844	348,045	824,387	12,366,632
Accumulated depreciation and impairment	(610,901)	(49,563)	(3,528,152)	(166,988)	—	(4,355,604)
Net carrying amount	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	3,733,107	4,850	3,907,081	259,588	54,714	7,959,340
Accumulated depreciation and impairment	(526,601)	(2,991)	(2,110,108)	(123,887)	—	(2,763,587)
Net carrying amount	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753
At 1 January 2013, net of accumulated depreciation and impairment	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753
Additions	26,128	—	333,636	10,127	69,257	439,148
Disposals	—	—	(20,683)	(4,487)	—	(25,170)
Transfer to investment property (note 16)	—	—	—	—	(57,975)	(57,975)
Transfers to subsidiaries	—	—	(17,694)	(174)	—	(17,868)
Depreciation provided during the year	(101,886)	(970)	(592,116)	(22,259)	—	(717,231)
Transfers	18,998	—	32,678	—	(51,603)	73
At 31 December 2013, net of accumulated depreciation and impairment	3,149,746	889	1,532,794	118,908	14,393	4,816,730
At 31 December 2013:						
Cost	3,778,233	4,850	4,035,205	239,209	14,393	8,071,890
Accumulated depreciation and impairment	(628,487)	(3,961)	(2,502,411)	(120,301)	—	(3,255,160)
Net carrying amount	3,149,746	889	1,532,794	118,908	14,393	4,816,730

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	3,246,435	30,935	3,543,348	258,415	739,549	7,818,682
Accumulated depreciation and impairment	(434,220)	(28,105)	(1,691,191)	(104,380)	—	(2,257,896)
Net carrying amount	2,812,215	2,830	1,852,157	154,035	739,549	5,560,786
At 1 January 2012, net of accumulated depreciation and impairment	2,812,215	2,830	1,852,157	154,035	739,549	5,560,786
Additions	1,513	—	539,634	6,700	280,259	828,106
Disposals	—	—	(23,284)	(2,672)	(4,510)	(30,466)
Transfer to investment property (note 16)	(210,793)	—	(8,843)	—	(219,368)	(439,004)
Transfers to subsidiaries	—	—	(12,947)	—	—	(12,947)
Depreciation provided during the year	(118,652)	(971)	(568,737)	(22,362)	—	(710,722)
Transfers	722,223	—	18,993	—	(741,216)	—
At 31 December 2012, net of accumulated depreciation and impairment	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753
At 31 December 2012:						
Cost	3,733,107	4,850	3,907,081	259,588	54,714	7,959,340
Accumulated depreciation and impairment	(526,601)	(2,991)	(2,110,108)	(123,887)	—	(2,763,587)
Net carrying amount	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753

As at 31 December 2013, RMB683,394,000 of the Group's buildings (2012: Nil) and none of the Group's machinery equipment (2012: RMB225,208,000) were pledged to secure bank borrowings granted to the Group (note 34).

As at 31 December 2013, none of construction in progress (2012: RMB683,394,000) were pledged to secure bank borrowings granted to the Group (note 34).

As at 31 December 2013, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Xi'an, Anhui and Hengyang, the PRC, with net carrying value of approximately RMB670,505,000 (2012: RMB1,128,081,000), RMB1,869,263,000 (2012: RMB1,916,442,000), RMB203,160,000 (2012: RMB211,076,000), RMB875,696,000 (2012: RMB203,338,000), RMB63,141,000 (2012: RMB5,562,000) and RMB5,358,000 (2012: Nil), respectively.

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16. INVESTMENT PROPERTIES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fair value				
Carrying amount at 1 January	**1,686,158**	—	**1,381,593**	—
Transfer from owner-occupied properties				
Property, plant and equipment (note 15)	**130,384**	721,315	**57,975**	439,004
Prepaid land lease payments (note 17)	**—**	47,853	**—**	30,563
	130,384	769,168	**57,975**	469,567
Revaluation gain upon transfer from owner-occupied properties to investment properties	**—**	932,669	**—**	922,664
Fair value on transfer date	**—**	1,701,837	**—**	1,392,231
Net gain from a fair value adjustment (note 6)	**38,704**	(15,679)	**56,770**	(10,638)
Carrying amount at 31 December	**1,855,246**	1,686,158	**1,496,338**	1,381,593
Completed investment properties	**1,855,246**	633,289	**1,496,338**	633,289
Investment properties under construction	**—**	1,052,869	**—**	748,304
	1,855,246	1,686,158	**1,496,338**	1,381,593

The Group's investment properties are situated in Mainland China and are held under a medium term lease.

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2013 based on valuations performed by 深圳市天健國衆聯資產評估土地房地產估價有限公司, independent professionally qualified valuers, at RMB1,855,246,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third parties under operating leases, further summary details of which are included in note 51 to the financial statements.

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16. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Commercial properties	—	—	1,855,246	1,855,246

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties
	RMB'000
Carrying amount at 1 January 2013	1,686,158
Additions	130,384
Net loss from a fair value adjustment recognised in other expenses in profit or loss	38,704
Carrying amount at 31 December 2013	1,855,246

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Commercial properties	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB24 to 477
		Rent growth (p.a.)	1% to 5%
		Long term vacancy rate	5%
		Discount rate	6%

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16. INVESTMENT PROPERTIES (continued)

Valuations were based on either: (i) direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession by making reference to comparable sales transactions as available in the relevant market; or (ii) residual method of valuation which is common in valuing development sites by establishing the market value of the properties on an “as-if” completed basis with appropriate deduction on construction costs, professional fees and interest payments to be incurred as well as developer’s profits; or (iii) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties on the balance sheet date.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset’s life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

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17. PREPAID LAND LEASE PAYMENTS

	Group	
	2013	2012
	RMB'000	RMB'000
Carrying amount at 1 January	**909,028**	880,908
Additions during the year	**209,671**	240,815
Disposals	**(9,891)**	(147,609)
Transfer to investment properties	**—**	(47,853)
Recognised during the year	**(21,138)**	(17,233)
Carrying amount at 31 December	**1,087,670**	909,028
Current portion	**(23,649)**	(19,677)
Non-current portion	**1,064,021**	889,351

All the leasehold lands are held under medium term leases and are situated in Mainland China.

	Company	
	2013	2012
	RMB'000	RMB'000
Carrying amount at 1 January	**385,464**	414,715
Additions during the year	**1,720**	10,473
Transfer to investment properties	**—**	(30,563)
Recognised during the year	**(9,225)**	(9,161)
Carrying amount at 31 December	**377,959**	385,464
Current portion	**(8,901)**	(8,867)
Non-current portion	**369,058**	376,597

All the leasehold lands are held under medium term leases and are situated in Mainland China.

As at 31 December 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 RMB647,083,000 (31 December 2012: RMB476,871,000).

As at 31 December 2013, a subsidiary of the Group pledged its land use right with a net carrying value of RMB23,650,000 (2012: RMB24,171,000) as security for a bank loan (note 34).

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18. INTANGIBLE ASSETS

	Group				
	Technology know-how	Computer software	Operating concession	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2013					
Cost at 1 January 2013, net of accumulated amortisation and impairment	**5,858**	**126,043**	**46,109**	**2,446,934**	**2,624,944**
Additions	**1,906**	**148,863**	**109,678**	**1,168,715**	**1,429,162**
Retirements and disposals	**(1,677)**	**(77,024)**	**—**	**(137,687)**	**(216,388)**
Amortisation provided during the year	**(1,250)**	**(60,270)**	**(149,151)**	**(545,814)**	**(756,485)**
At 31 December 2013	**4,837**	**137,612**	**6,636**	**2,932,148**	**3,081,233**
At 31 December 2013					
Cost	**6,605**	**464,168**	**332,583**	**4,572,586**	**5,375,942**
Accumulated amortisation and impairment	**(1,768)**	**(326,556)**	**(325,947)**	**(1,640,438)**	**(2,294,709)**
Net carrying amount	**4,837**	**137,612**	**6,636**	**2,932,148**	**3,081,233**
31 December 2012					
Cost at 1 January 2012, net of accumulated amortisation and impairment	2,549	99,104	212,385	1,925,610	2,239,648
Additions	3,705	173,930	—	884,364	1,061,999
Retirements and disposals	—	(75,388)	(112,585)	—	(187,973)
Amortisation provided during the year	(396)	(71,603)	(53,691)	(363,040)	(488,730)
At 31 December 2012	5,858	126,043	46,109	2,446,934	2,624,944
At 31 December 2012					
Cost	10,689	438,971	222,905	3,541,560	4,214,125
Accumulated amortisation and impairment	(4,831)	(312,928)	(176,796)	(1,094,626)	(1,589,181)
Net carrying amount	5,858	126,043	46,109	2,446,934	2,624,944

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18. INTANGIBLE ASSETS (continued)

	Company			
	Computer software	**Operating concession**	**Deferred development costs**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2013				
Cost at 1 January 2013, net of accumulated amortisation and impairment	**99,704**	**44,696**	**595,205**	**739,605**
Additions	**31,769**	**104,009**	**218,680**	**354,458**
Retirements and disposals	**(9,036)**	**—**	**—**	**(9,036)**
Amortisation provided during the year	**(48,449)**	**(148,705)**	**(148,235)**	**(345,389)**
At 31 December 2013	**73,988**	**—**	**665,650**	**739,638**
At 31 December 2013				
Cost	**364,971**	**324,796**	**1,237,689**	**1,927,456**
Accumulated amortisation and impairment	**(290,983)**	**(324,796)**	**(572,039)**	**(1,187,818)**
Net carrying amount	**73,988**	**—**	**665,650**	**739,638**
31 December 2012				
Cost at 1 January 2012, net of accumulated amortisation and impairment	90,305	210,696	499,988	800,989
Additions	84,377	—	164,592	248,969
Retirements and disposals	(15,260)	(112,566)	—	(127,826)
Amortisation provided during the year	(59,718)	(53,434)	(69,375)	(182,527)
At 31 December 2012	99,704	44,696	595,205	739,605
At 31 December 2012				
Cost	386,605	185,787	1,019,009	1,591,401
Accumulated amortisation and impairment	(286,901)	(141,091)	(423,804)	(851,796)
Net carrying amount	99,704	44,696	595,205	739,605

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19. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits for purchase of property, plant and equipment	**217,270**	217,482	**199,744**	217,482
Other long-term receivable	**198,430**	229,744	**—**	—
	415,700	447,226	**199,744**	217,482

20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**6,093,653**	6,191,055
Less: Impairment[#]	**(92,315)**	(92,315)
Loans to subsidiaries	**4,151,237**	2,484,940
	10,152,575	8,583,680

[#] An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB1,017,031,000 (before deducting the impairment loss) (2012: RMB1,017,031,000) because the respective subsidiaries were loss-making.

The Company's balances of trade and bills receivables, other receivables, trade and bills payables and other payables with the subsidiaries are disclosed in notes 26, 28, 32 and 33 to the financial statements, respectively. The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

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20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal Activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited # (i) (深圳市中興康訊電子有限公司)	The PRC/Mainland China	RMB1,755,000,000	100	—	Manufacture and sale of electronic components
ZTEsoft Technology Company Limited # (ii) (南京中興軟創科技股份有限公司)	The PRC/Mainland China	RMB300,000,000	80.1	—	Sale and development of business operation support systems
Zhongxing Software Company Limited ("Zhongxing Software") # (ii) (深圳市中興軟件有限責任公司)	The PRC/Mainland China	RMB51,080,000	100	—	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing New Software")# (i) (iii) (西安中興新軟件有限責任公司)	The PRC/Mainland China	RMB600,000,000	100	—	Development of telecommunications software systems and provision of related consultancy services
ZTE (Hangzhou) Company Limited # (i) (iii) (中興通訊(杭州)有限責任公司)	The PRC/Mainland China	RMB100,000,000	100	—	Telecommunications and related equipment manufacturing
ZTE Mobile Tech Company Limited # (i) (iii) (深圳市中興移動通信有限公司)	The PRC/Mainland China	RMB79,166,000	90	—	Development, manufacture and sale of telecommunications related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HK$995,000,000	100	—	Marketing and sale of telecommunications system equipment and provision of management services
Shenzhen Zhongxing ICT Company Limited # (i) (iii) (深圳中興網信科技有限公司)	The PRC/Mainland China	RMB60,000,000	90	—	Design and sale of corporate management hard/software products
ZTE Technology & Service Company Limited # (i) (深圳市中興通訊技術服務有限責任公司)	The PRC/Mainland China	RMB50,000,000	90	10	Development, manufacture and sale of telecommunications related products
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited # (i) (iii) (上海中興通訊技術有限責任公司)	The PRC/Mainland China	RMB10,000,000	90	—	Development, manufacture and sale of computer software and telecommunications system equipment
ZTE Group Finance Company Limited # (i) (中興通訊集團財務有限公司)	The PRC/Mainland China	RMB1,000,000,000	100	—	Financing and consulting

(i) These subsidiaries are registered as limited companies under PRC law.

(ii) These subsidiaries are registered as foreign-invested enterprises under PRC law.

(iii) The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\# The English names of these subsidiaries are directly translated from their Chinese names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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21. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investment, at cost	**—**	—	**55,005**	44,559
Share of net assets	**39,587**	19,510	**—**	—
Goodwill on acquisition	**27,304**	27,304	**—**	—
	66,891	46,814	**55,005**	44,559

The Group's balances of trade receivables with joint ventures are disclosed in note 26 to the financial statements. The amounts due from joint ventures are unsecured and interest-free.

Particulars of the Group's joint ventures are as follows:

			Percentage of			
Name	Place of incorporation and business	Nominal value of issued and paid-up capital/ registered capital	Ownership interest	Voting power	Profit Sharing	Principal Activities
Bestel Communications Limited ("Bestel")	Republic of Cyprus	EUR446,915	50	50	50	Provision of telecommunications solutions and related consultancy services
Puxing Mobile Tech Company Limited # (普興移動通訊設備有限公司)	The PRC/Mainland China	RMB128,500,000	34	50	50	Provision of telecommunications solutions and related consultancy services
Jiangsu Zhongxing Weitong Information and Technology Company Limited (江蘇中興微通信息科技有限公司)	The PRC/Mainland China	RMB18,000,000	50	50	50	Provision of telecommunications solutions and related consultancy services
Pengzhong Xingsheng	Republic of Uzbekistan	USD3,160,000	50	50	50	Sale of telecommunications related products

\# The English name of this joint venture is directly translated from its Chinese name.

The investment in Bestel is held by a wholly-owned subsidiary of the Company. There was no operating activity in 2013.

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21. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures:

	2013	2012
	RMB'000	RMB'000
Share of the joint ventures' assets and liabilities:		
Assets	**125,818**	142,496
Liabilities	**86,231**	122,986
Net assets	**39,587**	19,510
Share of the joint ventures' results:		
Revenue	**123,465**	128,885
Profit before tax	**2,892**	619
Tax	**—**	—
Profit after tax	**2,892**	619

22. INVESTMENTS IN ASSOCIATES

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**—**	—	**275,006**	285,913
Share of net assets	**411,146**	408,954	**—**	—
	411,146	408,954	**275,006**	285,913
Provision for impairment	**—**	—	**(9,774)**	(9,774)
	411,146	408,954	**265,232**	276,139

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 26 and 32 to the financial statements, respectively.

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22. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of registration and business	Nominal value of issued and paid-up capital/registered capital	Percentage of ownership interest attributable to the Group	Principal activities
ZTE Energy Co., Ltd. # * (中興能源有限公司)	The PRC/ Mainland China	RMB1,290,000,000	23.26	Research, development and sale of biological energy and new energy
Sizhuo Zhongxing Hangzhou Technology Co., Ltd. # * (思卓中興(杭州)科技有限公司)	The PRC/ Mainland China	USD7,000,000	49.00	Research and sale of communication device
Shenzhen Zhongxing Hetai Hotel Investment and Management Co., Ltd. # * (深圳市中興和泰酒店投資管理有限公司)	The PRC/ Mainland China	RMB30,000,000	18.00	Hotel management service
Xingtian Communication Technology (Tianjin) Co., Ltd.# * (興天通訊技術(天津)有限公司)	The PRC/ Mainland China	RMB20,000,000	30.00	Research and sales of communication devices

\# The English names of these associates are directly translated from their Chinese names.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The year end date of the financial statements of the above associates is coterminous with that of the Group.

All the above associates have been accounted for using the equity method in consolidated financial statements.

The following table illustrates the aggregate financial information of the Group's associates extracted from their management accounts:

	2013 RMB'000	2012 RMB'000
Assets	**4,493,255**	3,702,646
Liabilities	**2,510,576**	1,705,680
Revenues	**1,235,129**	865,993
Profit	**118,190**	263,896

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23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investment, at market value	**364,479**	38,420	**—**	—
Unlisted equity investments, at cost	**1,265,792**	1,053,915	**373,555**	323,655
	1,630,271	1,092,335	**373,555**	323,655

The above investments consist of investments in equity securities which have been designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2013, the above listed equity investment with a carrying amount of RMB364,479,000 (2012: RMB38,420,000) was stated at market value. During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB149,231,000 (2012: RMB12,625,000). Certain unlisted equity investments with a carrying amount of RMB1,265,792,000 (2012: RMB1,053,915,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

24. INVENTORIES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**3,472,053**	3,359,605	**934,485**	1,296,103
Work in progress	**897,061**	919,285	**324,204**	462,728
Finished goods	**2,563,775**	2,983,703	**794,848**	572,237
Contract works in progress	**5,501,463**	4,179,796	**5,002,981**	3,336,965
	12,434,352	11,442,389	**7,056,518**	5,668,033

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25. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**12,137,144**	13,666,100	**7,029,635**	8,440,613
Amount due to customers for contract works	**(3,682,564)**	(3,459,545)	**(2,496,029)**	(2,600,053)
	8,454,580	10,206,555	**4,533,606**	5,840,560
Contract costs incurred plus recognised profits	**41,905,232**	43,111,813	**26,109,712**	25,630,676
Less: Recognised losses to date	**105,908**	193,877	**18,066**	17,603
Less: Progress billings	**33,344,744**	32,711,381	**21,558,040**	19,772,513
	8,454,580	10,206,555	**4,533,606**	5,840,560

26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

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

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

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26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

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

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

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

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

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26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

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

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

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

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

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

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

The Group has pledged trade receivables of RMB750,000,000 and bills receivables of RMB102,000,000 (2012: RMB950,000,000 and RMB617,229,000) to secure the bank borrowings (note 34).

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27. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group entered into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them were derecognised in their entirety but for which the Group retains continuing involvement. More details are set in note 44.

In the prior year, the Company entered into a contract of a telecommunications system project (the "Project") with an African telecommunications operator with a total contract amount of USD1,500,000,000. The related accounts receivable are to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. In 2009, two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to the receivable purchase agreements (the "Agreements"), which stipulates the factoring conditions based on the future performance of the African telecommunications operator. During the financing period, the banks will charge interest to the Company and the telecommunications operator. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2013, under the above arrangements, accounts receivable due from the customer amounted to RMB6,837,218,000 (2012: RMB7,745,078,000) among which RMB5,469,775,000 (2012: RMB6,196,062,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB1,367,443,000 (2012: RMB1,549,016,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**751,405**	742,551	**29,328**	44,783
Deposits and other receivables	**3,798,163**	4,242,756	**2,170,516**	2,649,421
Due from subsidiaries	**—**	—	**10,273,927**	3,947,307
Dividends receivable	**62,518**	400	**1,970,264**	6,242,066
Interest receivable	**15,654**	307	**—**	—
Advances and loans	**246,281**	241,063	**—**	—
	4,874,021	5,227,077	**14,444,035**	12,883,577

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**12,992,908**	10,198,466
Associates	**6,208**	250,032	**—**	—
Other related companies	**3,199**	841	**—**	—
	9,407	250,873	**12,992,908**	10,198,466

The amounts due from subsidiaries and other related companies are unsecured, non-interest-bearing and are repayable on demand.

29. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Listed equity investment, at market value:		
Mainland China	**—**	44,919

The above equity investment as at 31 December 2012 represented the equity interest of 1.15% in Nationz Technologies, Inc. which was disposed of in 2013.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2013		2012	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**173,263**	**(61,659)**	26,050	(69,391)
Conversion right on convertible notes	**44,191**	**—**	—	—
Other forward contracts	**—**	**—**	35,328	(30,239)
Interest rate swaps	**—**	**(10,406)**	—	(16,856)
	217,454	**(72,065)**	61,378	(116,486)
Portion classified as non-current:				
Interest rate swaps	**—**	**(4,286)**	—	(10,747)
Current portion	**217,454**	**(67,779)**	61,378	(105,739)

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30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Company			
	2013		2012	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**69,300**	**(12,575)**	9,389	(42,325)

Forward currency contracts

The carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well-known banks in Mainland China and Hong Kong with A- or above credit ratings.

The Group has entered into these contracts to manage its exchange rate exposure. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Gains on the fair value amounting to RMB174,829,000 (2012: losses of RMB49,456,000) were recognised in the statement of profit or loss during the year.

Conversion right on convertible notes

On 15 January 2013, ZTE(HK) Limited ("ZTE HK"), a wholly-owned subsidiary of ZTE subscribed for 112,000,000 ordinary shares and convertible bonds of HKD201,500,000. The Conversion right on convertible notes represents the fair value of the convertible right.

Interest rate swaps — cash flow hedges

Interest rate swaps are designated as hedging instruments in respect of expected interest payments for floating rate debts incurred by the Group.

The terms of the interest rate swaps have been negotiated to match the terms of the debts. The cash flow hedges relating to expected interest payments were assessed to be highly effective and a net gain of RMB5,784,000 was included in the hedging reserve as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Total fair value gain/(loss)	**5,784**	(12,736)
Net gain/(loss) on cash flow hedges	**5,784**	(12,736)

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31. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**24,299,932**	27,283,500	**15,560,227**	19,167,583
Less:				
Pledged deposits — non-current	**(3,396,897)**	(3,157,077)	**(3,396,897)**	(3,157,077)
Pledged deposits — current	**(708,641)**	(1,380,180)	**(406,892)**	(734,069)
Time deposits with original maturity of over three months	**(76,120)**	(86,608)	**—**	—
Cash and cash equivalents	**20,118,274**	22,659,635	**11,756,438**	15,276,437
Time deposits with original maturity of less than three months	**(2,291,241)**	(221,482)	**—**	—
Unrestricted bank balances and cash	**17,827,033**	22,438,153	**11,756,438**	15,276,437

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB9,707,024,000 (2012: RMB12,010,286,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Pledged deposits included the deposits as at 31 December 2013 of RMB288,821,000 (2012: RMB404,736,000) with the People's Bank of China, at a statutory reserve of 15% (2012: 15%) for RMB on customer deposits held by ZTE Group Finance Company Limited.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

32. TRADE AND BILLS PAYABLES

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

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

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32. TRADE AND BILLS PAYABLES (continued)

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

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

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

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

33. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2013**	2012	**2013**	2012
		RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance		**2,776,366**	3,106,638	**2,896,512**	1,765,544
Other payables		**8,890,302**	7,903,371	**7,437,198**	7,728,277
Factoring costs payable		**84,084**	104,356	**84,084**	104,356
Advance receipts for staff housing scheme		**66,168**	614,189	**66,168**	614,189
Accruals		**3,002,003**	2,856,278	**1,193,723**	940,864
Provision for warranties	39	**490,417**	246,692	**317,404**	127,805
Due to the controlling shareholder		**1,308**	1,363	**308**	308
Due to subsidiaries		**—**	—	**9,695,474**	8,343,734
Due to other related companies		**359**	884	**322**	257
		15,311,007	14,833,771	**21,691,193**	19,625,334

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder, subsidiaries and other related companies are unsecured, non-interest-bearing and are repayable on demand.

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34. INTEREST-BEARING BANK BORROWINGS

	Group					
	2013			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	1.8707-14.25	2014	10,392,010	1.3-12.75	2013	4,471,431
Bank loans — unsecured	Libor/Hibor+1.9	2014	508,644	Libor+1.6-4.5	2013	7,351,195
Bank loans — unsecured	Libor+1-4	2014	818,169	Sibor+1.2	2013	157,137
Bank loans — guaranteed*	2	2014	2,132,563	Libor+1.6-1.95	2014-2016	5,626,824
Bank loans — guaranteed	3	2014	609,168	3	2013	6,286
Bank loans — secured	3-5	2014	120,291	3.0-7.0	2013	817,020
Bank loans — unsecured	Sibor+2.2	2014	152,422	—	—	—
Bank loans — unsecured	3MLibor+2	2014	609,690	—	—	—
			15,342,957			18,429,893
Non-current						
Bank loans — secured	6.65	2015	269,500	Libor+1.6	2016	180,419
Bank loans — secured	6.65	2015	500,500	3.0-6.65	2014-2015	807,571
Bank loans — guaranteed	3	2016	2,725,977	—	—	—
Bank loans — unsecured	—	2015	2,000	—	2015	2,000
Bank loans — unsecured	Libor+Margin1.5	2016	107,696	—	—	—
Bank loans — unsecured	5.53-5.85	2016	1,780,000	—	—	—
			5,385,673			989,990
			20,728,630			19,419,883

* Excludes the effects of related interest rate swaps as further detailed in note 30 to the financial statements.

	Company					
	2013			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	2.34–6.6	2014	8,375,865	2.79–6.89	2013	3,206,390
Bank loans — unsecured	—	—	—	Libor+1.90-4.50	2013	6,096,935
			8,375,865			9,303,325
Non-current						
Bank loans — unsecured	4.2–6.15	2016	1,780,000	—	—	—
			1,780,000			—
			10,155,865			9,303,325

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34. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**15,342,957**	18,429,893	**8,375,865**	9,303,325
In the second year	**772,000**	12,571	**—**	—
In the third to fifth years, inclusive	**4,613,673**	977,419	**1,780,000**	—
	20,728,630	19,419,883	**10,155,865**	9,303,325

Notes:

Except for bank loans of approximately RMB7,369,950,000 (2012: RMB4,127,020,000) which are denominated in Renminbi, all the Group's and the Company's borrowings are in United States dollars and other foreign currencies.

Except for bank loans with a carrying amount of RMB5,462,393,000 (2012: RMB6,204,308,000), all borrowings of the Group bear interest at floating interest rates.

The Group's secured bank loans and banking facilities are secured by:

	Group	
	2013	2012
	RMB'000	RMB'000
Real estate properties	**683,394**	—
Machinery equipment	**—**	225,208
Land use rights	**23,650**	24,171
Construction in progress	**—**	683,394
Pledged bank deposits	**4,105,538**	4,132,521
Trade receivables	**750,000**	950,000
Bills receivable	**102,000**	617,229
	5,664,582	6,632,523

Certain of the Group's bank loans are guaranteed by:

	Group	
	2013	2012
	RMB'000	RMB'000
Entities within the Group	**5,467,708**	5,583,110

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

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34. INTEREST-BEARING BANK BORROWINGS (continued)

ZTE (H.K.) Limited ("ZTE HK"), a subsidiary of the Company, entered into a syndicated loan agreement ("Loan Agreement") with an aggregate amount of USD900 million with 10 international banks, including Bank of China (Hong Kong) Limited, in 2011. The loans were guaranteed by the Company. Balances and outstanding terms of the loans as at the end of the current year are set out as follows:

	Drawdown date	Due date	Currency	Interest rate	31 December 2013		31 December 2012	
					Foreign	RMB	Foreign	RMB
				(%)	currency	equivalent	currency	equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approx. 3%	**447,109**	**2,725,977**	444,829	2,795,973
Bank of China	2011.7.20	2014.7.20	USD	Approx. 2%	**349,778**	**2,132,563**	350,327	2,201,980
Bank of China	2011.8.15	2014.8.15	USD	Approx. 2%	**99,914**	**609,168**	100,051	628,871

35. BONDS CUM WARRANTS

	2013	2012
	RMB'000	RMB'000
Carrying amount at 1 January	**4,018,134**	3,884,198
Interest expense (note 7)	**13,866**	165,936
Interest paid	**(32,000)**	(32,000)
Repayment	**(4,000,000)**	—
Carrying amount at 31 December	**—**	4,018,134
Current liability	**—**	(4,018,134)
Non-current liability	**—**	—

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds and warrants are listed on the Shenzhen Stock Exchange. The bonds are guaranteed by China Development Bank, and have a maturity of five years from the date of issuance. Each bond entitles its subscriber to an unconditional issue of 1.63 warrants, and 65,200,000 warrants are issuable in aggregate. The detachable warrants are valid for 24 months from the date of listing, conferring rights to subscribe for one A share at an exercise price of RMB78.13 for every two warrants held. Since the dividend payment and the completion of the capitalisation issue during the years 2008 and 2009, the exercise price of the warrants has been adjusted to RMB42.394 and the holders of the warrants are entitled to subscribe for 0.922 A share for every warrant held.

The bonds bear interest at a rate of 0.8% per annum payable in arrears on 30 January each year.

The fair value of the liability component was estimated at the issue date using a market interest rate for an equivalent bond without the detachable warrants. The residual amount was allocated to the detachable warrants that was assigned as the equity component and is included in shareholders' equity.

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35. BONDS CUM WARRANTS (continued)

The exercise period of the warrants attached to the bonds of the Company expired on 12 February 2010, a total of 23,348,590 warrants were exercised, accounting for 35.81% of the total number of the warrants prior to the exercise. A total of 41,851,410 warrants were not exercised and lapsed.

The carrying amount of the liability component approximates to its fair value. The fair value of the liability component is estimated using an equivalent market interest rate for a similar bond. Since the bonds cum warrants matured in January 2013, the balance of the liability component was classified as current liabilities as at 31 December 2012. The bonds cum warrants were fully repaid on 30 January 2013.

36. BONDS PAYABLE

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2013	**6,107,993**	**263,597**	**(252,000)**	**6,119,590**
31 December 2012	—	6,107,993	—	6,107,993

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, the net book value of the liabilities amounted to RMB5,965,212,000 after the deduction of issue expenses of RMB34,788,000.

	2013	2012
	RMB'000	RMB'000
Carrying amount at 1 January	**6,107,993**	—
Increase during the year	**—**	5,965,212
Interest expense (note 7)	**263,597**	142,781
Interest paid	**(252,000)**	—
Carrying amount at 31 December	**6,119,590**	6,107,993

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37. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted as at 31 December 2013 in accordance with HKAS 19 *Employee Benefits*. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2013	2012
Discount rate (%)	**4.75%**	4.25%
Expected rate of salary increases (%)	**5.50%**	5.50%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is shown below:

	Increase in rate%	**Increase/ (decrease) in net defined benefit obligation**	**Decrease in rate%**	**Increase/ (decrease) in net defined benefit obligation**
Discount rate	0.25%	(3,467)	0.25%	3,627
Future salary increase	1.00%	12,455	1.00%	(10,539)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income in respect of the plan is follows:

	2013 RMB'000	2012 RMB'000
Interest cost	**4,178**	6,314
Net benefit expenses	**4,178**	6,314
Recognised in administrative expenses	**4,178**	6,314

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37. PROVISION FOR RETIREMENT BENEFITS (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	99,932	103,052
Interest cost	4,178	6,314
Pension payments made	(1,264)	(989)
Benefit expenses recognised in other comprehensive income	(7,040)	(8,445)
At 31 December	95,806	99,932

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2013		Pension cost charged to profit or loss		Remeasurement gains in other comprehensive income				
	1 January 2013 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2013 RMB'000
Defined benefit obligations	99,932	4,178	4,178	(1,264)	(7,422)	382	(8,304)	95,806
Benefit liability	99,932	4,178	4,178	(1,264)	(7,422)	382	(8,304)	95,806

2012		Pension cost charged to profit or loss		Remeasurement gains in other comprehensive income				
	1 January 2012 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2012 RMB'000
Defined benefit obligations	103,052	6,314	6,314	(989)	(8,335)	(110)	(9,434)	99,932
Benefit liability	103,052	6,314	6,314	(989)	(8,335)	(110)	(9,434)	99,932

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38. OTHER LONG-TERM PAYABLES

Group

	2013 RMB'000	2012 RMB'000
Factoring costs payable	**257,540**	341,719
Deferred income for staff housing scheme	**1,164,994**	182,086
	1,422,534	523,805

39. PROVISION FOR WARRANTIES

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**246,692**	347,610	**127,805**	209,246
Additional provision	**808,942**	303,007	**661,866**	208,253
Amounts utilised during the year	**(565,217)**	(403,925)	**(472,267)**	(289,694)
At 31 December	**490,417**	246,692	**317,404**	127,805

In respect of handsets, the Group and the Company generally provide a one-year warranty to their customers under which faulty products will be repaired or replaced. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

40. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets and liabilities:				
At 1 January	**1,078,705**	1,128,836	**443,107**	622,619
Deferred tax credited/(charged) to the statement of profit or loss and other comprehensive income during the year (note 10)	**134,428**	89,769	**180,502**	(41,112)
Deferred tax credited to other comprehensive income	**—**	(139,900)	**—**	(138,400)
At 31 December	**1,213,133**	1,078,705	**623,609**	443,107

40. DEFERRED TAX (continued)

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Unrealised profits arising on consolidation	**117,100**	148,805	**—**	—
Provision against inventories	**131,522**	109,550	**49,442**	30,173
Foreseeable contract losses	**2,710**	2,640	**2,710**	2,640
Amortisation of intangible assets	**87,447**	60,990	**24,969**	16,694
Provision for warranties	**57,758**	28,101	**52,395**	23,954
Provision for retirement benefits	**14,370**	8,902	**14,370**	8,106
Undeducted payables	**190,092**	171,683	**—**	—
Equity-settled share option	**4,456**	—	**4,456**	—
Tax losses	**591,006**	499,344	**457,095**	311,350
Overseas tax	**156,572**	188,590	**156,572**	188,590
	1,353,033	1,218,605	**762,009**	581,507
Deferred tax liabilities:				
Revaluation gain of owner-occupied properties	**(139,900)**	(139,900)	**(138,400)**	(138,400)
	1,213,133	1,078,705	**623,609**	443,107

Deferred tax assets have not been recognised in respect of the following item:

	2013	2012
	RMB'000	RMB'000
Tax losses	**10,030,817**	7,927,125

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2013	2012
	RMB'000	RMB'000
2013	**—**	2,188
2014	**20,328**	20,328
2015	**1,040,884**	1,040,884
After 2015	**8,969,605**	6,863,725
	10,030,817	7,927,125

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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41. ISSUED CAPITAL

	2013 RMB'000	2012 RMB'000
Restricted shares		
Domestic natural person shares	–	2,537
Senior management shares	7,226	8,724
	7,226	11,261
Unrestricted shares		
RMB ordinary shares	2,800,730	2,799,232
Overseas listed foreign shares	629,585	629,585
	3,430,315	3,428,817
	3,437,541	3,440,078

42. SHARE INCENTIVE SCHEME

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the resolution of the Share Option Incentive Scheme at the General Meeting convened in accordance with the Administrative Measures on Share Incentives of Listed Company (Trial) had been recognisd with no objection by the China Securities Regulatory Commission. On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at Eighth Meeting of the Sixth Session of the Board of Directors. The Share Incentive Scheme was considered and approved at the Third Extraordinary General Meeting of 2013 convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013. Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price, subject to the conditions of exercise. The source of two shares under the Scheme shall be shares of the Company issued to the Participants by the Company by way of placing. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the company's shares or the actual controller of the Company and their spouse or blood relative.

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42. SHARE INCENTIVE SCHEME (continued)

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent three exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69 per share. The share options not exercisable due to failing to fulfill the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity (ROE);

(2) The growth rate of net profit attributable the shareholders' of the listed company (The growth rate of net profit).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	From 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

The fair value of the share options granted in 2013 amounted to RMB524,023,000, among which the share options tariff confirmed by the Company in 2013 amounted to RMB29,707,000.

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42. SHARE INCENTIVE SCHEME (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Proposed dividend (RMB)		0.18	0.18	0.18
Volatility (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

43. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 7 and 8 of the financial statements.

The capital reserve of the Group includes the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate a certain percentage of the statutory profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issue by way of paid-up capital. The fund cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Share Incentive Scheme reserve was created for the Share Incentive Scheme launched by the Company that provides incentives and rewards to certain employees of the Company and its subsidiaries.

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43. RESERVES (continued)

(b) Company

	Notes	Issued capital	Capital reserve	Share Incentive Scheme reserve	Shares subject to lock-up under the Share Incentive Scheme	Statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011 and 1 January 2012		3,440,078	8,512,405	12,502	(40,537)	925,674	(16,349)	1,296,239	686,190	14,816,202
Prior year adjustments		—	(54,336)	—	—	—	—	—	—	(54,336)
As restated		3,440,078	8,458,069	12,502	(40,537)	925,674	(16,349)	1,296,239	686,190	14,761,866
Final 2011 dividend declared		—	—	—	—	—	—	—	(686,190)	(686,190)
Total comprehensive income for the year (restated)	11	—	8,445	—	—	—	(789)	(1,474,442)	—	(1,466,786)
Proposed final 2012 dividend	12	—	—	—	—	—	—	—	—	—
Share Incentive Scheme:	42									
— Equity settled share expense		—	—	6,722	—	—	—	—	—	6,722
— Unlocking the lock-up shares		—	19,224	(19,224)	40,537	—	—	—	—	40,537
Revaluation gain upon transfer from owner-occupied properties to investment properties, net of tax		—	784,264	—	—	—	—	—	—	784,264
Others		—	7,000	—	—	—	—	—	—	7,000
At 31 December 2012 and 1 January 2013		3,440,078	9,277,002	—	—	925,674	(17,138)	(178,203)	—	13,447,413
Final 2012 dividend declared		—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	11	—	7,040	—	—	—	(943)	340,024	—	346,121
Share Incentive Scheme:	42									
— Equity-settled share expense		(2,537)	22,856	—	—	—	—	—	—	20,319
— Unlocking the lock-up shares		—	—	—	—	—	—	—	—	—
Proposed final 2013 dividend		—	—	—	—	—	—	(103,126)	103,126	—
Transfer from retained profit		—	—	—	—	25,765	—	(25,765)	—	—
At 31 December 2013		3,437,541	9,306,898	—	—	951,439	(18,081)	32,930	103,126	13,813,853

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44. TRANSFERS OF FINANCIAL ASSETS

Bills receivable

Financial assets that are derecognised in their entirety

Bills discount

At 31 December 2013, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB491,634,000. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Discounted Bills. The maximum exposure to loss from the Group's continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Discounted Bills are not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Discounted Bills (2012: Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Trade receivables factoring

As part of its normal business, the Group entered into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them were derecognised in their entirety but for which the Group retains continuing involvement.

Transferred trade receivables that are not derecognised in their entirety

According to some factoring arrangements, the Group is exposed to default risks of the trade debtors after the transfer and accordingly, it continued to recognise the full carrying amounts of the trade receivables. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2013 amounted to RMB2,790,279,000.

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44. TRANSFERS OF FINANCIAL ASSETS (continued)

Trade receivables factoring (continued)

Transferred financial assets that are derecognised in their entirety but for which the Company retains continuing involvement

According to some factoring arrangements, the Group may be required to reimburse the banks for loss of a certain proportion of principal ranging from 0% to 25% if any trade debtors default and to reimburse interest if any trade debtors have late payment up to 180 days. The Group is not exposed to significant default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2013 amounted to RMB13,222,149,000. The continuing involvement and associated liabilities are summarised as follows:

	RMB'000
Carrying amount of assets that continue to be recognised	2,860,047
Carrying amount of liabilities that continue to be recognised	2,898,620

45. DISPOSAL OF SUBSIDIARIES

	Note	2013 RMB'000 Shenzhen ZNV Technology Co., Ltd.	2013 RMB'000 Wuxi Zhongxing Optoelectronics Technologies Company Limited	2013 RMB'000 Total
Net assets disposed of:				
Current assets		**1,097,744**	229,169	**1,326,913**
Non-current assets		**117,893**	86,069	**203,962**
Current liabilities		**(583,425)**	(180,945)	**(764,370)**
Non-controlling interests		**(63,221)**	(47,003)	**(110,224)**
Fair value of the equity interests retained after disposal		**(129,184)**	—	**(129,184)**
Gain on disposal of subsidiaries	6	**852,567**	14,110	**866,677**
		1,292,374	101,400	**1,393,774**
Satisfied by:				
Cash		**1,292,374**	101,400	**1,393,774**

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45. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net cash flow in respect of the disposal of subsidiaries is as follows:

	2013 RMB'000 Shenzhen ZNV Technology Co., Ltd.	2013 RMB'000 Wuxi Zhongxing Optoelectronics Technologies Company Limited	2013 RMB'000 Total
Cash consideration	1,292,374	101,400	1,393,774
Cash and bank balances disposed of	(285,973)	(25,993)	(311,966)
Net cash flow of cash and cash equivalents in respect of the disposal of subsidiaries	1,006,401	75,407	1,081,808

46. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group and Company	
	2013 **RMB'000**	2012 RMB'000
Guarantees given to banks in connection with borrowing to customers	**46,311**	65,179
Guarantees given to banks in respect of performance bonds	**7,022,304**	7,814,811
	7,068,615	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 RMB44,253,000). 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 RMB19,026,000) 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 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 judgement.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated. No additional provision in respect of the litigation was made.

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46. CONTINGENT LIABILITIES (continued)

(c) 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 Shenzhen 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 the first trial judgement 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 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 at the Intermediate Court.

In October and November 2009, the Company 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.

In July 2009, China Construction Fifth instituted a 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 judgement in November 2012 which ruled contract amounts of approximately RMB14,497,000 together with interest accrued thereon and losses incurred as a 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 interest 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 judgement.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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46. CONTINGENT LIABILITIES (continued)

(d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned 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 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 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.

The Company, based on the advice from the Group's legal counsel, the ultimate outcome of this claim cannot be reliably estimated.

(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.

The Company, based on the advice from the Group's legal counsel, believes that the Company has a valid defense against the allegation and, accordingly, have not provided for any claim arising from the litigation.

Notes to Financial Statements

46. CONTINGENT LIABILITIES (continued)

(f) 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 patents 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.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

(g) On 3 January 2012, the wholly-owned subsidiary ZTE DO BRAZIL LTDA ("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 (approximately RMB194 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 judgement 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. On 13 January 2014, the tax bureau of Sao Paulo State decided that the aforesaid administrative penalty notice be revoked on 1 June 2014 in accordance with Order No, 56045/2010 and Administrative Regulation CAT154/2010.

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46. CONTINGENT LIABILITIES (continued)

(h) 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 interest and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB250 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. On 18 September 2013, ZTE Brazil was notified of the ruling by the level 1 administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State.

The Company, based on the advice from the Group's legal counsel, has made a provision of BRL522,000,000 (approximately RMB13,552,000)for this claim.

(i) In May 2012, the U.S. Flashpoint Technology Inc. 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 product 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. On 1 October 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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46. CONTINGENT LIABILITIES (continued)

(j) In July 2012, Technology Properties Limited LLC 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. On 6 September 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 19 February 2014, ITC announced the final decision on the case that the Company and ZTE USA did not infringe upon Section 337.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

(k) In November 2012, ZTE Brazil, a wholly-owned subsidiary of the Company, filed an application with 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 RMB81,400,500). On 7 February 2013, Civil Court of Brasilia ruled that given that there was no obvious dispute over obligation between the said Brazilian company and any other company and no sign of bankruptcy, the freeze on the assets was suspended.

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 demanded compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB215 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

(l) In October and December 2013, Pragmatus Mobile LLC filed a claim with the Federal District Court of Delaware and ITC, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights of its map and related Wi-Fi application. Defendants included other companies in the industry. In the case filed with the District Court, damages for losses and payments of legal fees were demanded of the defendants although no specific amount of compensation was named. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against certain of the Company's and ZTE USA's products which allegedly infringed upon the patent rights. 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.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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47. FINANCIAL GUARANTEE CONTRACT

The Group has provided a financial guarantee which will expire in September 2018 for an independent customer with a maximum amount of RMB46,311,000 including corresponding interest. The amount of financial guarantee contract recognised by the Group was RMB3,689,000.

In accordance with HKAS 39, this financial guarantee contract is accounted for as a financial liability and subsequently measured at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

48. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 34 to the financial statements.

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2014. During the year, approximately RMB114,309,000 (2012: RMB159,055,000) of operating lease rental income has been recognised under this arrangement.

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 48 years.

At 31 December 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**389,625**	432,442	**187,978**	209,174
In the second to fifth years, inclusive	**639,658**	877,456	**305,514**	386,075
After five years	**57,696**	114,104	**14,466**	46,258
	1,086,979	1,424,002	**507,958**	641,507

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50. COMMITMENTS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**264,314**	484,417	**27,714**	69,323
Investments in associates	**17,304**	41,712	**—**	—
	281,618	526,129	**27,714**	69,323
Authorised, but not contracted for:				
Land and buildings	**21,566,513**	21,600,404	**—**	—

51. 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 year:

	Notes	**2013 RMB'000**	2012 RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**227,609**	235,557
Sales of finished goods	(b)	**2,658**	2,910
Rental expense	(c)	**8,827**	8,827
Associates:			
Purchases of raw materials	(a)	**71,445**	245,382
Sales of finished goods	(b)	**17,250**	7,337
Rental income	(e)	**4,533**	4,040
Interest expense	(f)	**56**	44
Interest income	(f)	**4,762**	9,705
Joint ventures:			
Sales of finished goods	(b)	**109,868**	125,836
Rental income	(e)	**85**	—
Entities significantly influenced by key management personnel of the Group:			
Purchases of raw materials	(a)	**447,549**	278,106
Sales of finished goods	(b)	**105**	19,747
Rental expense	(d)	**44,221**	50,676
Rental income	(e)	**2,146**	1,696
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**266,301**	296,322
Sales of finished goods	(b)	**6,970**	950
Rental income	(e)	**696**	—
The substantial shareholder of the controlling shareholder:			
Purchases of raw materials	(a)	**—**	2,634
Rental income	(e)	**—**	17

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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51. 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 rates of RMB40 per square metre and RMB200 per car parking space.

(d) The rental expense was charged at rates ranging from RMB115 to RMB500 per square metre.

(e) The rental income was earned from RMB27 to RMB144 per square metre.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
The controlling shareholder	8,827	2,575	—
Entities significantly influenced by key management personnel of the Group	45,733	13,339	—

(ii) A subsidiary of the Group entered into a series of agreements with related parties to purchase raw materials for the Group's future production. The maximum amount of total purchases from related parties in the following year was expected as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
The controlling shareholder	1,000,000	1,100,000	—
An entity significantly influenced by key management personnel of the Group	800,000	900,000	—

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51. RELATED PARTY TRANSACTIONS (continued)

(II) Commitments with related parties (continued)

(iii) The Group leases certain of its office premises to related parties under non-cancellable operating lease arrangements. The Group expected the lease receivables from related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
Associates	3,944	—	—
Joint ventures	92	62	—
Entities significantly influenced by key management personnel of the Group	2,146	—	—
The substantial shareholder of the controlling shareholder	293	—	—

(III) Outstanding balances with related parties

(i) Details of the Group's trade balances with the controlling shareholder, joint ventures, associates and other related parties as at the end of the reporting period are disclosed in notes 26 and 32 to the financial statements.

(ii) Details of the Group's balances of receivables and payables which are not trade in nature with the controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 28 and 33 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2013 RMB'000	2012 RMB'000
Short-term employee benefits	**19,022**	8,891
Post-employment benefits	**40**	381
Equity-settled share expense	**—**	—
Total compensation paid to key management personnel	**19,062**	9,272

The related party transactions in respect of purchases of raw materials amounting to approximately RMB494 million (2012: RMB511 million) and rental expenses amounting to approximately RMB0 million (2012: RMB37 million) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. For details, please refer to the section of the Annual Report headed "Material Matters (X) Significant Connected Transactions of the Group (2) Continuing Connected Transactions under the Hong Kong Listing Rules".

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52. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2013	Group			
Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	1,630,271	1,630,271
Trade and bills receivables/long-term trade receivables	—	25,260,690	—	25,260,690
Factored trade receivables/factored long-term trade receivables	—	5,650,326	—	5,650,326
Financial assets included in prepayments, deposits and other receivables	—	1,865,075	—	1,865,075
Equity investment at fair value through profit or loss	—	—	—	—
Pledged deposits	—	4,105,538	—	4,105,538
Time deposits with original maturity of over three months	—	76,120	—	76,120
Cash and cash equivalents	—	20,118,274	—	20,118,274
Derivative financial instruments	217,454	—	—	217,454
	217,454	57,076,023	1,630,271	58,923,748

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52. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2013			**Group**		
Financial liabilities	**Financial liabilities at fair value through profit or loss RMB'000**	**Financial liabilities at amortised cost RMB'000**	**Derivatives designated as hedging instruments in effective hedges RMB'000**	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables	**—**	**24,990,555**	**—**	**—**	**24,990,555**
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	**—**	**5,688,899**	**—**	**—**	**5,688,899**
Financial liabilities included in other payables and accruals	**—**	**7,791,444**	**—**	**—**	**7,791,444**
Interest-bearing bank borrowings	**—**	**20,728,630**	**—**	**—**	**20,728,630**
Financial guarantee contract	**—**	**—**	**—**	**3,689**	**3,689**
Bonds payable	**—**	**6,119,590**	**—**	**—**	**6,119,590**
Factoring costs payable	**—**	**257,540**	**—**	**—**	**257,540**
Derivative financial instruments	**61,659**	**—**	**10,406**	**—**	**72,065**
	61,659	**65,576,658**	**10,406**	**3,689**	**65,652,412**

2012		Group		
Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	1,092,335	1,092,335
Trade and bills receivables/long-term trade receivables	—	27,557,038	—	27,557,038
Factored trade receivables/factored long-term trade receivables	—	8,183,998	—	8,183,998
Financial assets included in prepayments, deposits and other receivables	—	2,248,685	—	2,248,685
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Pledged deposits	—	4,537,257	—	4,537,257
Time deposits with original maturity of over three months	—	86,608	—	86,608
Cash and cash equivalents	—	22,659,635	—	22,659,635
Derivative financial instruments	61,378	—	—	61,378
	106,297	65,273,221	1,092,335	66,471,853

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52. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2012			Group		
Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives designated as hedging instruments in effective hedges	Other financial liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	29,593,979	—	—	29,593,979
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	8,187,416	—	—	8,187,416
Financial liabilities included in other payables and accruals	—	7,588,089	—	—	7,588,089
Interest-bearing bank borrowings	—	19,419,883	—	—	19,419,883
Financial guarantee contract	—	—	—	3,689	3,689
Bonds cum warrants	—	4,018,134	—	—	4,018,134
Bonds payable	—	6,107,993	—	—	6,107,993
Factoring costs payable	—	341,719	—	—	341,719
Derivative financial instruments	99,630	—	16,856	—	116,486
	99,630	75,257,213	16,856	3,689	75,377,388

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52. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2013	Company			
Financial assets	**Financial assets at fair value through profit or loss RMB'000**	**Loans and receivables RMB'000**	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	—	—	373,555	373,555
Trade and bills receivables/long-term trade receivables	—	37,248,288	—	37,248,288
Factored trade receivables/factored long-term trade receivables	—	4,052,186	—	4,052,186
Financial assets included in prepayments, deposits and other receivables	—	12,444,443	—	12,444,443
Equity investment at fair value through profit or loss	—	—	—	—
Derivative financial instruments	69,300	—	—	69,300
Pledged deposits	—	3,803,789	—	3,803,789
Cash and cash equivalents	—	12,163,330	—	12,163,330
	69,300	69,712,036	373,555	70,154,891

2013	Company		
Financial liabilities	**Financial liabilities at amortised cost RMB'000**	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables	44,451,968	—	44,451,968
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	4,090,759	—	4,090,759
Financial liabilities included in other payables and accruals	20,180,066	—	20,180,066
Interest-bearing bank borrowings	10,155,865	—	10,155,865
Financial guarantee contract	—	3,689	3,689
Bonds payable	6,119,590	—	6,119,590
Factoring costs payable	257,540	—	257,540
Derivative financial instruments	12,575	—	12,575
	85,268,363	3,689	85,272,052

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52. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2012	Company			
Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	323,655	323,655
Trade and bills receivables/long-term trade receivables	—	39,932,448	—	39,932,448
Factored trade receivables/factored long-term trade receivables	—	7,127,964	—	7,127,964
Financial assets included in prepayments, deposits and other receivables	—	6,596,728	—	6,596,728
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Derivative financial instruments	9,389	—	—	9,389
Pledged deposits	—	3,891,146	—	3,891,146
Cash and cash equivalents	—	15,276,437	—	15,276,437
	54,308	72,824,723	323,655	73,202,686

2012	Company		
Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	47,661,655	—	47,661,655
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	7,131,382	—	7,131,382
Financial liabilities included in other payables and accruals	18,556,665	—	18,556,665
Interest-bearing bank borrowings	9,303,325	—	9,303,325
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	4,018,134	—	4,018,134
Bonds payable	6,107,993	—	6,107,993
Factoring costs payable	341,719	—	341,719
Derivative financial instruments	42,325	—	42,325
	93,163,198	3,689	93,166,887

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53. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, trade receivables, deposits and other receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of a listed equity investment is based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

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53. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value:

Group

As at 31 December 2013	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**364,479**	**—**	**—**	**364,479**
Derivative financial instruments	**—**	**217,454**	**—**	**217,454**
	364,479	**217,454**	**—**	**581,933**

As at 31 December 2012	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	38,420	—	—	38,420
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Derivative financial instruments	—	61,378	—	61,378
	89,339	61,378	—	144,717

Company

As at 31 December 2013	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**69,300**	**—**	**69,300**

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53. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

Company (continued)

As at 31 December 2012	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Derivative financial instruments	—	9,389	—	9,389
	44,919	9,389	—	54,308

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

Liabilities measured at fair value:

Group

As at 31 December 2013	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(72,065)**	**—**	**(72,065)**

As at 31 December 2012	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(116,486)	—	(116,486)

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53. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

Company

As at 31 December 2013	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(12,575)**	**—**	**(12,575)**

As at 31 December 2012	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(42,325)	—	(42,325)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into derivative transactions to manage the interest rate and currency risks arising from the Group's operations and its sources of finance, but is forbidden to engage in speculative activities for profit-making. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

At 31 December 2013, the bank loans of the Group and the Company included fixed and variable rate debts.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

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54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As the Group borrowed a USD900 million floating interest loan, the Group entered into and will enter into interest rate swaps with a nominal principal amount of not more than USD900 million at an appropriate timing, 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 notion al principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2013, after taking into account the effect of the interest rate swaps, approximately 30% (2012: 32%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2013	**0.25%**	**(36,641)**	**4,065**
	(0.25%)	**36,641**	**(4,065)**
2012	0.25%	(31,593)	5,764
	(0.25%)	31,593	(5,764)

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD, EUR and a certain portion of the bank loans is denominated in USD. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes a rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There would be no change in other components of equity.

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54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2013		
If RMB weakens against USD	**3%**	**37,160**
If RMB strengthens against USD	**(3%)**	**(37,160)**
If RMB weakens against EUR	**5%**	**185,118**
If RMB strengthens against EUR	**(5%)**	**(185,118)**

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2012		
If RMB weakens against USD	3%	31,570
If RMB strengthens against USD	(3%)	(31,570)
If RMB weakens against EUR	5%	155,594
If RMB strengthens against EUR	(5%)	(155,594)

Credit risk

The Group trades only 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 credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and derivative investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis, by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

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54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes. Except for the non-current portion of interest-bearing bank borrowings, all borrowings of the Group mature in less than one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2013	**Group**					
	On demand	**Within 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Interest-bearing bank borrowings	**—**	**15,508,467**	**839,379**	**5,023,976**	**—**	**21,371,822**
Trade and bills payables	**16,492,534**	**8,498,021**	**—**	**—**	**—**	**24,990,555**
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	**—**	**3,377,374**	**729,055**	**546,622**	**1,120,002**	**5,773,053**
Other payables	**7,707,360**	**84,084**	**—**	**—**	**—**	**7,791,444**
Bonds payable	**—**	**252,000**	**6,252,000**	**—**	**—**	**6,504,000**
Factoring costs payable	**—**	**—**	**73,327**	**63,889**	**189,065**	**326,281**
Derivative financial instruments	**—**	**67,779**	**4,270**	**46**	**—**	**72,095**
Financial guarantee contract	**50,000**	**—**	**—**	**—**	**—**	**50,000**
	24,249,894	**27,787,725**	**7,898,031**	**5,634,533**	**1,309,067**	**66,879,250**

2012	Group					
	On demand	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	18,684,521	13,290	919,466	193,458	19,810,735
Trade and bills payables	18,115,877	11,478,102	—	—	—	29,593,979
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	4,211,344	1,594,306	966,975	1,754,183	8,526,808
Other payables	7,483,733	104,356	—	—	—	7,588,089
Bonds cum warrants	—	4,018,134	—	—	—	4,018,134
Bonds payable	—	252,000	252,000	6,252,000	—	6,756,000
Factoring costs payable	—	—	89,624	75,752	260,440	425,816
Derivative financial instruments	—	105,739	5,471	4,062	1,320	116,592
Financial guarantee contract	68,868	—	—	—	—	68,868
	25,668,478	38,854,196	1,954,691	8,218,255	2,209,401	76,905,021

Notes to Financial Statements

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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are 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 maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in 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 years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using a gearing ratio, which are interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Interest-bearing borrowings	**20,728,630**	19,419,883
Bonds cum warrants and bonds payable	**6,119,590**	10,126,127
Bank advances on factored trade receivables and long-term trade receivables	**5,688,899**	8,187,416
Total interest-bearing liabilities	**32,537,119**	37,733,426
Total equity	**23,625,689**	22,592,839
Total equity and interest-bearing liabilities	**56,162,808**	60,326,265
Gearing ratio	**57.9%**	62.5%

55. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB144,460,000 (2012: RMB205,542,000) is by assuming directly related liabilities.

56. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB0.3 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,437,541,278 shares as at 31 December 2013, the profit distribution proposal is subject to approval by the annual general meeting of the Company.

57. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

58. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2014.

Documents Available for Inspection

(I) Text of the 2013 annual report signed by the Chairman of the Board of Directors;

(II) Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2013 prepared in accordance with the PRC ASBEs and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;

(IV) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://www.cninfo.com.cn during the year;

(V) Articles of Association.

By order of the Board

Hou Weigui
Chairman

27 March 2014

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