



Important

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

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

This report has been considered and approved at the Nineteenth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Hou Weigui, Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Zhang Jianheng, Vice Chairman, to vote on his behalf. Mr. Xie Weiliang, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Dong Lianbo, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. He Shiyong, Director, to vote on his behalf. Mr. Yin Yimin, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Wei Wei, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Tan Zhenhui, Independent Non-executive Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2014 are unaudited.

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

No profit distribution or capitalisation of capital reserves will be implemented in respect of the interim period of 2014.

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.

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.

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

CONTENTS

DEFINITIONS	2
GLOSSARY	4
I. CORPORATE INFORMATION	7
II. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS	9
III. REPORT OF THE BOARD OF DIRECTORS	12
IV. MATERIAL MATTERS	37
V. CHANGES IN SHAREHOLDINGS AND INFORMATION OF SHAREHOLDERS	58
VI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT	65
VII. FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH PRC ASBEs (UNAUDITED) AND NOTES THERETO	70
VIII. FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH HKFRSs (UNAUDITED) AND NOTES THERETO	208
IX. DOCUMENTS AVAILABLE FOR INSPECTION	232

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)
PRC ASBES	Generally accepted accounting principles in China
HKFRSs	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards (“HKASs”) and Interpretations)
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

Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
Zhongxingxin	Shenzhen Zhongxingxin Telecommunications Equipment 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
航天歐華	深圳市航天歐華科技發展有限責任公司
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
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 featuring digital wireless radio technology that enables larger network capacity, improved voice quality and more secure encryption, as well as seamless international roaming for users which includes GSM and CDMA. GSM (Global System for Mobile Communication) is a global system for cellular mobile communications originated in Europe using TDMA, while CDMA is a standard for spread spectrum technology. The data rate of 2G can reach 115.2Kbps. The data rate of GSM using EDGE (enhanced data rate for GSM evolution) can reach 384Kbps.
3G	Third-generation mobile networks supporting peak data rate of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps at fixed locations.
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 at fixed locations and 100Mbit/s in motion.
5G	Fifth-generation mobile communications, 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.
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) which is the long-term evolution of 3G technology, refers to fourth-generation mobile communication technologies with OFDM as its core technology. LTE is being promoted by 3GPP and has been evolved to the R12 version, its major performance targets include the support of multi-carrier aggregation with a maximum bandwidth of 20MHz per carrier, and the maximum speeds of 150Mbps (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. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, it supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.
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.

PON	Provision of optical fiber access service through unpowered optical network technologies, using point-to-multipoint topological structures that enable conservation of optical fiber resources as well as flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON 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 retaining the traditional strengths of optical transmission, such as availability and reliability, efficient bandwidth and flow management, 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 solves the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection, through “digital transmission system” and “optical transmission system” regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798.
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.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
M-ICT Strategy	The strategy of ZTE is to be an “Enabler@M-ICT that facilitates the creation of value through information.” The letter “M” denotes a variety of meanings, which include: 1) Mobile: as handheld smart terminals become increasingly popular, ICT services are present everywhere; 2) M2M: the inter-connection of all things (Man-Man, Man-Machine, Machine-Machine); 3) Multiple connection: all-present connection; 4) Multi-service, More coverage and accessibility; 5) More secure, More reliable and easier to use.
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.
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.

Glossary

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 modulation 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.
Big Data	A data set that is too large and complex to be processed by existing conventional database management technologies and tools, and that requires the use of new data processing and management technologies in order create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informationization, smart applications and business models of the society. Big data is often characterised by 4Vs: Volume, Variety, Velocity and Value.
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 inventions in numerous countries at the same time.

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, Keji 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. Authorized 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, Keji Road South, Shenzhen, Guangdong Province
The People's Republic of China
7. Listing information
A shares
Shenzhen Stock Exchange
Abbreviated name of stock: 中興通訊
Stock code: 000063
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: 中興通訊
Stock code: 763

Corporate Information

- | | | |
|----|--------------------------------------|---|
| 8. | Change in registration details | There were no change in the registration details, such as the date and place of registration, corporate business licence registration number, tax registration number and entity code, etc, of the Company during the reporting period. For details please refer to the section headed "Corporate Information" in the 2013 Annual Report. |
| 9. | Change in other relevant information | <input type="checkbox"/> Applicable <input checked="" type="checkbox"/> N/A |

Highlights of Accounting Data and Financial Indicators

(I) 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 ACCOUNTING ERRORS

✓ Yes ☐ No

PRC ASBEs

In early 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 Company adopted the five aforesaid accounting standards in the preparation of its 2013 financial statements. In the preparation of its 2014 interim financial statements, retrospective adjustments were made to figures for the corresponding period of 2013. The retrospective adjustments have affected the weighted average return on net assets and the weighted average return on net assets after extraordinary items for the six months ended 30 June 2013, but have had no impact on profit and loss.

HKFRSs

The Company adopted the amendments to HKAS 19 Employee Benefits in the preparation of its 2013 financial statements. In the preparation of its 2014 interim financial statements, retrospective adjustments were made to figures for the corresponding period of 2013. The retrospective adjustments have affected the weighted average return on net assets and the weighted average return on net assets after extraordinary items for the six months ended 30 June 2013, but have had no impact on profit and loss.

(II) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in thousands

Item	End of the reporting period (30 June 2014)	End of last year (31 December 2013)	Change as at the end of the reporting period compared with the end of last year
Total assets	101,852,878	100,079,497	1.77%
Owner’s equity attributable to shareholders of the listed company	23,749,123	22,532,648	5.40%
Share capital (thousand shares)	3,437,541	3,437,541	—
Net asset per share attributable to shareholders of the listed company (RMB/share) ^{Note 1}	6.91	6.55	5.50%
Gearing ratio(%)	75.63%	76.39%	Decreased by 0.76 percentage points

Highlights of Accounting Data and Financial Indicators

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2014)	Same period of last year (Six months ended 30 June 2013) (Restated)		Change compared with the same period of last year
		Prior to adjustment	After adjustment	
Operating revenue	37,697,309	37,576,212	37,504,784	0.51%
Operating profit	(210,049)	(772,673)	(772,673)	72.82%
Total profit	1,643,986	741,781	741,781	121.63%
Net profit attributable to shareholders of the listed company	1,128,206	310,012	310,012	263.92%
Net profit after extraordinary items attributable to shareholders of the listed company	932,304	(752,372)	(752,372)	223.92%
Basic earnings per share (RMB/share) ^{Note 2}	0.33	0.09	0.09	266.67%
Diluted earnings per share (RMB/share) ^{Note 3}	0.33	0.09	0.09	266.67%
Basic earnings per share after extraordinary items (RMB/share) ^{Note 2}	0.27	(0.22)	(0.22)	222.73%
Weighted average return on net assets (%)	4.86%	1.43%	1.44%	Increased by 3.42 percentage points
Weighted average return on net assets after extraordinary items (%)	4.02%	(3.48%)	(3.49%)	Increased by 7.51 percentage points
Net cash flows from operating activities	715,309	(4,341,084)	(4,341,084)	116.48%
Net cash flows from operating activities per share (RMB/share) ^{Note 4}	0.21	(1.26)	(1.26)	116.67%

Note 1: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2014 and the end of 2013 was calculated on the basis of the total share capital as at the end of each period;

Note 2: Basic earnings per share for the first half of 2014 was calculated on the basis of the total share capital as at the end of the period. Basic earnings per share for the corresponding period of the previous year 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 3: As the Share Option Incentive Scheme of the Company had no dilutive effect during the reporting period, and there were no Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up for the corresponding period last year, the amount of diluted earnings per share was equivalent to that of basic earnings per share;

Note 4: Net cash flows from operating activities per share for the first half of 2014 were calculated on the basis of the total share capital at the end of the period. Net cash flows from operating activities per share for the corresponding period last year was 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.

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

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income	385,448
Gains/(Losses) from fair value change	(58,769)
Investment income	(37,577)
Less: Gains/(Losses) on disposal of non-current assets	16,179
Less: Other non-operating expenses	42,450
Less: Effect of income tax	34,571
Total	195,902

(III) MAJOR FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH HKFRSs

Item	Six months ended 30 June 2014	Six months ended 30 June 2013 (Restated)
Basic earnings per share (RMB/share) ^{Note 1}	0.33	0.09
Weighted average return on net assets (%)	4.86%	1.44%
Weighted average return on net assets after extraordinary items (%)	4.02%	(3.49%)
Item	30 June 2014	31 December 2013
Net assets per share attributable to shareholders of the listed company (RMB/share) ^{Note 2}	6.91	6.55

Note 1: Basic earnings per share for the first half of 2014 was calculated on the basis of the total share capital as at the end of the period. Basic earnings per share for the corresponding period of the previous year 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 as at the end of the first half of 2014 and the end of 2013 were calculated on the basis of the total share capital as at the end of each period.

(IV) THE AMOUNT OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP FOR THE SIX MONTHS ENDED AND AS AT 30 JUNE 2014 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Report of the Board of Directors

The Board of Directors of the Company is pleased to present this interim report together with the financial statements of the Group for the six months ended 30 June 2014.

FINANCIAL RESULTS

Please refer to page 72 and page 208 of this report for the results of the Group for the six months ended 30 June 2014 prepared in accordance with PRC ASBES and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2014

1. Overview of the domestic telecommunications industry for the first half of 2014

During the first six months of 2014, the Big Three domestic carriers stepped up with their investments in equipment mainly in connection with the large-scale deployment of 4G networks and the construction of related ancillary facilities. The rapid development of the Mobile Internet and the launch of 4G smart phones has accelerated the commercialisation of 4G networks. While the wireless sector remained a heavily favoured spot in the telecommunications industry, emerging new sectors such as the Mobile Internet, Cloud Computing, Big Data and Smart City were becoming new growth niches in the industry. According to statistics published by the Ministry of Industry and Information Technology, revenue from the telecommunication services amounted to RMB595.73 billion for the six months ended 30 June 2014, representing a year-on-year growth of 5.6%.

2. Overview of the global telecommunications industry for the first half of 2014

There was stable growth in equipment investment by the global telecommunications industry in the first half of 2014. The traditional telecommunications industry was facing opportunities as well as challenges in its development under the impact of comprehensive 4G applications, the integration of ICT industries and the trend of informatisation. While continuing to enhance network performance, global carriers were actively investigating new profit models, such as service innovations, flow business and applications for the government and corporate sectors, in a bid to realise effective transformation by exploring new opportunities for development.

3. Operating results of the Group for the first half of 2014

During the first half of 2014, the Group reported rapid growth in operating revenue from carriers' networks in the domestic market in active support of domestic carriers' plans for massive construction of 4G networks, while the Group reported lower operating revenue from handset terminals in the domestic market. Therefore, the Group's overall operating revenue was little changed compared to the first half of 2013, growing by 0.51% to RMB37,697 million. The substantial increment in overall gross profit margin and total gross profit for the six months ended 30 June 2014 was attributable to the Group's on-going strengthening of management over contract profitability, improvement in gross profit margin for international projects as well as an increase in the operating revenue from domestic 4G systems projects as a percentage of total operating revenue. As a result of the combined effect of the aforesaid factors, the Group reported net profit attributable to shareholders of the listed company of RMB1,128 million for the six months ended 30 June 2014, representing a year-on-year growth of 263.92%. Basic earnings per share amounted to RMB0.33.

(1) By market*The domestic market*

During the reporting period, the Group reported operating revenue of RMB19,259 million from the domestic market, accounting for 51.09% of the Group's overall operating revenue. Leveraging opportunities presented by the large-scale deployment of 4G networks, the Group made incessant efforts to develop business in emerging new sectors such as the Mobile Internet and Cloud Computing under its M-ICT Strategy. Innovative solutions were launched with enhanced in-house capabilities, while strategic cooperation with carriers was conducted in a practical manner to maintain the Group's dominant position and increase its market shares, with a view to long-term, positive development.

The international market

During the reporting period, the Group reported operating revenue of RMB18,438 million from the international market, accounting for 48.91% of the Group's overall operating revenue. In adherence to the strategy of focusing on major populous nations and mainstream global carriers, the Group further optimise its market profile to achieve stable operations and quality growth.

(2) By product

During the reporting period, the Group reported operating revenue of RMB21,836 million for carriers' networks. Operating revenue for handset terminals amounted to RMB10,406 million. Operating revenue for telecommunications software systems, services and other products amounted to RMB5,455 million.

Carriers' networks

In connection with wireless products, ongoing innovation and enhancement in product competitiveness provided the driving force behind growth. For example, the Group's innovative Cloud Radio solution has boosted sales of 4G products in the domestic and international markets, especially in the domestic market where the Group continued to assume a leading position in 4G product tenders, with effective growth in market shares. In the traditional 2G/3G markets, stable growth was achieved as the Group continued to optimise its market profile. In anticipation of future developments in wireless communications, the Group has issued a white paper on 5G technologies and designated the development of 5G technologies as a strategic project.

In connection with wireline and optical communications products, the Group maintained its technological edge and ability to innovate products in close tandem with the development trend of the broadband market.

In connection with Cloud Computing and ICT products, the Group also made significant breakthroughs in Cloud Computing/Big Data products and data centre products.

Handset terminals

The Group has set up a Terminals Business Department as an independent operation focused on the shift to a more consumer-oriented and internet-driven approach. Resources are mainly committed to the creation of new boutique handset models and software services in a bid to enhance the Group's product competitiveness and users' experience. During the first half of 2014, the Group launched a variety of boutique handset models targeted at different consumer groups. The Group's brand recognition among consumers has been improved following vigorous efforts to develop new sales channels such as e-commerce platforms.

Report of the Board of Directors

Telecommunications software systems, services and other products

During the reporting period, operating revenue from the Group's telecommunications software systems, services and other products reported year-on-year decline of 8.98% which reflected mainly the decline in operating revenue from video and network terminals in the domestic market and services in the international market.

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

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

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

Unit: RMB in thousands

Item	Six months ended 30 June 2014	Six months ended 30 June 2013 (Restated)	Percentage of increase/ decrease
Operating revenue	37,697,309	37,504,784	0.51%
Operating profit	(210,049)	(772,673)	72.82% ^{Note 1}
Net profit attributable to shareholders of the listed company	1,128,206	310,012	263.92% ^{Note 2}

Note 1: Attributable mainly to the combined effect of the increase in gross profit, decrease in finance expenses and decrease in investment income;

Note 2: Attributable mainly to the increase in operating profit and non-operating income.

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

Revenue mix	Operating revenue (RMB in thousands)	Operating costs (RMB in thousands)	Gross profit margin	Year-on-year Increase/ decrease in operating revenue Note 1	Year-on-year Increase/ decrease in operating costs Note 1	Year-on-year Increase/ decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	37,697,309	25,509,830	32.33%	0.51%	(6.33%)	4.95
Total	37,697,309	25,509,830	32.33%	0.51%	(6.33%)	4.95
II. By product						
Carriers' networks	21,835,700	13,392,563	38.67%	14.62%	7.83%	3.86
Handset terminals Note 2	10,406,174	8,748,746	15.93%	(16.49%)	(16.98%)	0.50
Telecommunications software, services and other products	5,455,435	3,368,521	38.25%	(8.98%)	(21.22%)	9.59
Total	37,697,309	25,509,830	32.33%	0.51%	(6.33%)	4.95
III. By region						
The PRC	19,259,606	12,131,628	37.01%	2.72%	(8.63%)	7.82
Asia (excluding the PRC)	5,867,677	4,027,818	31.36%	(7.26%)	(18.21%)	9.19
Africa	2,210,694	1,587,134	28.21%	(27.16%)	(27.57%)	0.42
Europe, Americas and Oceania	10,359,332	7,763,250	25.06%	10.29%	13.48%	(2.11)
Total	37,697,309	25,509,830	32.33%	0.51%	(6.33%)	4.95

Note 1: Figures for operating revenue and operating costs for the same period last year set out in the table above have been extracted from the restated statements for the same period last year.

Note 2: Handset terminals include handsets, data cards, fixed terminals, etc.

(1) Analysis of change in revenue

The Group reported RMB37,697,309,000 in operating revenue for the first six months of 2014, a 0.51% increase as compared to the same period last year, of which the domestic operating revenue increased by 2.72% to RMB19,259,606,000, while the international operating revenue decreased by 1.69% to RMB18,437,703,000 as compared to the same period last year.

Analysed by product, there was a slight increase in the Group's operating revenue for the first six months of 2014 as compared to the same period last year, which reflected mainly the combined effect of the increase in operating revenue from carriers' networks in the domestic market and the decrease in operating revenue from handset terminals in the domestic market. Year-on-year growth in the Group's operating revenue from carriers' networks was mainly attributable to the increase in operating revenue from TD-LTE system equipment and FDD-LTE system equipment. Year-on-year decline in the Group's operating revenue from handset terminals was mainly attributable to the decrease in operating revenue from 3G handsets in the domestic market. Year-on-year decline in the Group's operating revenue from telecommunications software, services and other products mainly reflected the decline in operating revenue from video and network terminals in the domestic market and services in the international market.

Report of the Board of Directors

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

Unit: RMB in thousands

Six months ended 30 June 2014			Six months ended 30 June 2013 ^{Note} (Restated)			Year-on-year Increase/ decrease in operating revenue	Year-on-year Increase/ decrease in operating costs	Year-on-year Increase/ decrease in gross profit margin (percentage points)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
37,697,309	25,509,830	32.33%	37,461,311	27,202,846	27.38%	0.63%	(6.22%)	4.95

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2013 have excluded operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2014.

The Company completed the disposal of 65% equity interests in Wuxi Zhongxing Optoelectronics Technologies Company Limited ("Wuxi Optoelectronics") in October 2013 and Wuxi Optoelectronics has been deconsolidated from the consolidated statements for the six months ended 30 June 2014. Operating revenue and operating costs of Wuxi Optoelectronics recorded in the consolidated statement for the six months ended 30 June 2013 amounted to RMB43,473,000 and RMB31,328,000, respectively. Excluding the operating revenue and operating costs of Wuxi Optoelectronics for the six months ended 30 June 2013, the Group's operating revenue and operating cost for the six months ended 30 June 2014 increased by 0.63% and decreased by 6.22%, respectively, compared to the corresponding period of last year. Gross profit margin increased by 4.95 percentage points compared to the corresponding period of last year.

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

Unit: RMB in thousands

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' networks	21,835,700	13,392,563	38.67%
Handset terminals	10,406,174	8,748,746	15.93%
Telecommunications software, services and other products	5,455,435	3,368,521	38.25%

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

Unit: RMB in thousands

Industry	Item	Six months ended 30 June 2014		Six months ended 30 June 2013		Year-on- year increase/ decrease
		Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	
Manufacturing of communication equipment	Raw materials	19,599,809	76.83%	21,860,220	80.27%	(10.34%)
	Engineering costs	5,164,446	20.25%	4,848,437	17.80%	6.52%
	Total	24,764,255	97.08%	26,708,657	98.07%	(7.28%)

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

Unit: RMB in thousands

Item	Six months ended 30 June 2014	Six months ended 30 June 2013 (Restated)	Year-on-year increase/ decrease
Selling and distribution expenses	4,741,335	4,667,509	1.58%
General and administrative expenses	1,072,251	1,060,788	1.08%
Finance expenses	507,970	1,370,126	(62.93%) ^{Note}
Income tax	472,675	412,537	14.58%
Research and development expenses	4,126,546	3,627,555	13.76%

Note: Mainly attributable to the exchange gains arising from exchange rate volatility for the period versus exchange losses arising from exchange rate volatility for the same period last year.

The Group's research and development expenses for the reporting period accounted for 17.38% and 10.95% respectively, of the Group's net assets attributable to shareholders of the listed company and operating revenue.

6. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	Six months ended 30 June 2014	Six months ended 30 June 2013	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	45,802,572	42,236,729	8.44%
Sub-total of cash outflows from operating activities	45,087,263	46,577,813	(3.20%)
Net cash flows from operating activities	715,309	(4,341,084)	116.48% ^{Note 1}
Sub-total of cash inflows from investing activities	1,053,510	1,499,514	(29.74%)
Sub-total of cash outflows from investing activities	1,840,359	2,278,410	(19.23%)
Net cash flows from investing activities	(786,849)	(778,896)	(1.02%)
Sub-total of cash inflows from financing activities	21,894,336	12,820,703	70.77% ^{Note 2}
Sub-total of cash outflows from financing activities	25,955,754	14,488,184	79.15% ^{Note 3}
Net cash flows from financing activities	(4,061,418)	(1,667,481)	(143.57%) ^{Note 4}
Net increase in cash and cash equivalents	(4,067,094)	(6,743,944)	39.69% ^{Note 5}

Report of the Board of Directors

Note 1: Mainly attributable to the increase in cash received for the sales of goods and provision of services and the decrease in cash paid for goods and services purchased for the period;

Note 2: Mainly attributable to the increase in cash received from loan during the period;

Note 3: Mainly attributable to the increase in cash used in debt repayment during the period;

Note 4: Mainly attributable to the increase in cash used in debt repayment exceeding the increase in cash received from loan drawdowns for the period;

Note 5: Mainly attributable to the increase in cash received for the sales of goods and provision of services and the decrease in cash paid for goods and services purchased for the period.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the reporting period, please refer to “Note V.49 Supplemental Information on Cash Flow Statement” to the financial report prepared under PRC ASBES.

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

- (1) There was no significant change in the principal business and its structure during the reporting period compared to the same period last year.
- (2) Change in the breakdown of profit during the reporting period compared to the same period last year is set out as follows:

For the first half of 2014, the Group reported operating profit of RMB-210,049,000, an increase by 72.82% compared to the same period last year, which was mainly attributable to the substantial improvement in gross profit margin and the year-on-year decrease in finance expenses. Expenses for the period amounted to RMB10,448,102,000, 2.59% lower as compared to the same period last year reflecting mainly the decrease in exchange rate revaluation and exchange losses. Investment income amounted to RMB-76,373,000, decreasing by 109.44% as compared to the same period last year and reflecting mainly the year-on-year decrease in investment income from the disposal of equity interests. Net non-operating income and expenses amounted to RMB1,854,035,000, a year-on-year increase of 22.42% reflecting year-on-year growth in income from software VAT rebate.

- (3) Change in the profitability (gross profit margin) of principal business during the reporting period compared to the same period last year is as follows:

The Group's overall gross profit margin for the first half of 2014 increased by 4.95 percentage points compared to the first half of 2013, reflecting the Group's strengthened management over contract profitability, improvements in the gross profit margin of international contracts and increase in operating revenue from domestic 4G system contracts as a percentage of total operating revenue.

8. Assets and liabilities measured at fair value

(1) Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	—	124,780	—	—	—	—	286,181
2. Derivative financial assets	217,454	(67,691)	—	—	—	—	80,397
3. Available-for-sale financial assets	364,479	—	3,120	—	—	—	76,128
Sub-total of financial assets	581,933	57,089	3,120	—	—	—	442,706
Investment properties	1,855,246	77,475	—	—	—	—	1,951,625
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	2,437,179	134,564	3,120	—	—	—	2,394,331
Financial liabilities ^{Note}	72,065	(193,333)	848	—	—	—	193,672

Note: Financial liabilities included derivative financial liabilities.

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

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

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

(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.

Report of the Board of Directors

9. Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	217,454	57,089	—	—	366,578
Including: Derivative financial assets	217,454	(67,691)	—	—	80,397
2. Loans and receivables	40,914,462	—	—	483,612	38,423,738
3. Available-for-sale financial assets	424,918	—	—	—	141,416
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	41,556,834	57,089	—	483,612	38,931,732
Financial liabilities	12,514,689	(193,333)	848	—	14,269,447

10. Technological innovations

Creating value for customers has always represented a core principle of the Group. We are committed to value creation for and mutual development with our customers through innovations in technologies and products, on the basis of a profound understanding of customers' requirements and expectations. At the beginning of 2014, the Group announced the M-ICT strategy, with the aim of becoming an enabler in the M-ICT era that facilitates the creation of value through information and shifts from a customer-focus to an user-focus. In terms of product strategy, the Group was mainly focused on broadband-based 4G products, including wireless, wireline, terminals and broadband businesses. Government and corporate networks and services, a sector holding out enormous market potential, also became one of our focuses for development. In addition, we have also established the "CGO Laboratory" as an engine and incubator for future innovations to develop new businesses and sectors.

The Group maintains an annual R&D budget equivalent to approximately 10% of its sales revenue. The Group has established 18 R&D centres in China, the United States, Sweden, France and other regions, as well as more than 10 joint innovation centres in association with leading carriers to ensure success in the market through better assessment of market demand and customers' experience.

As at 30 June 2014, the Group held patent assets of over 53,000 items, including granted patents of over 17,000 items and PCT international patent applications for over 15,000 items. 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 28,000 research papers in aggregate and editorships and authorships for more than 200 international standards, the Group continued to foster its leading edge in technologies and patents for key products and technologies, ensuring ongoing enhancement in its ability to counter patent risks.

In the first six months of 2014, the Group undertook leading roles in the R&D and industrialisation of more than 10 projects including the National 863 Project, Electronic Development Foundation, Cloud Computing, North Star Project and Guangdong Technology Programme.

The “ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes” 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 enterprise, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 30 institutions have joined the Forum.

11. Analysis of investments

(1) Equity investments

① Overview

The Group’s equity investments during the reporting period amounted to approximately RMB443,870,000, representing an increase of 2.01% compared to RMB435,117,300 for the same period last year.

For details of the Company’s equity investments in third parties and the investees, please refer to Note V.11 “Investments in jointly-controlled entities and associates” and 12 “Long-term equity investments” to the financial report prepared under PRC ASBES.

② Investment in securities

A. Securities investment at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Convertible bonds ^{Note 1}	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	15,610.66	1,617.68	Other receivables	Initial investment
Stock	00633.HK	China All Access ^{Note 2}	16,309.61	11,200	8.43%	11,200	7.73%	28,618.13	12,477.98	Trading financial assets	Initial investment
Other securities investments held at the end of the reporting period			—	—	—	—	—	—	—	—	—
Total			32,619.22	N/A	—	N/A	—	44,228.79	14,095.66		

Note 1: China All Access is a company listed on the Hong Kong Stock Exchange. The initial investment for the acquisition of convertible bonds of China All Access by ZTE HK, a wholly-owned subsidiary of the Company, amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. The book value of the investment as at the end of the reporting period was approximately HKD194.9 million, equivalent to approximately RMB156.1 million based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.801) on 30 June 2014.

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 Company’s foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. The book value of the investment as at the end of the reporting period was approximately HKD357.3 million, equivalent to approximately RMB286.2 million based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.801) on 30 June 2014.

Report of the Board of Directors

B. Details in investment in securities

a. Holdings of China All Access convertible bonds

Pursuant to the “Resolution on the subscription for shares and convertible bonds of China All Access (Holdings) Limited by ZTE HK” considered and passed at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, ZTE HK, a wholly-owned subsidiary of the Company, entered into the “Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited” with China All Access on 16 November 2012. On 15 January 2013, ZTE HK completed subscription for convertible bonds with a principal amount of HKD201.5 million issued by China All Access for a total cash consideration of HKD201.5 million.

As at the end of the reporting period, 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 receivables and interest income arising from the convertible bonds has been included in current profit and loss.

b. Shareholdings in China All Access

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

As at the end of the reporting period, ZTE HK held 112 million shares in China All Access, accounting for approximately 7.73% of the total share capital of China All Access (following the share placing by China All Access in April 2014). Such shares are subject to a lock-up period of one year (from 15 January 2013 to 15 January 2014). Lock-up of the shares has been released since 16 January 2014. The shares held by ZTE HK have been classified as trading financial assets for accounting purposes and investment income and gain/loss from fair value change have been measured at fair value.

③ Holding of equity interests in other listed companies

A. Holding of equity interests in other listed companies at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Shares held at the beginning of the period		Shareholding percentage at the beginning of the period	Shares held at the end of the period		Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
			Initial investment	(10 thousands shares)		(10 thousands shares)						
Stock	300322	Speed ^{Note}	762.79	240	2.14%	480		2.14%	7,612.80	312	Available-for-sale financial assets	Initial investment
Total			762.79	240	—	480		—	7,612.80	312	—	—

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

B. Details in holding of equity interests in other listed companies

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4.80 million shares in Speed, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 2.14% of the total share capital of Speed (following Speed's implementation of its 2013 profit distribution and capitalisation of capital reserves plans).

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

(2) Derivative investments, entrusted investments and entrusted loans

① Derivative Investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment	Initial investment amount in the derivative investment			Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing balance of net assets of the Company at the end of the period (%)	Actual profit or loss for the reporting period
				investment	Start date	End date					
HSBC	N/A	No	Interest rate swap	—	2011-12-19	2016-7-8	30,484.50	—	31,082.50	1.31%	—
Standard Chartered Bank	N/A	No	Interest rate swap	—	2011-12-22	2016-7-8	30,484.50	—	31,082.50	1.31%	—
BOC	N/A	No	Foreign exchange forwards	—	2013-5-16	2015-3-5	500,142.76	—	451,789.73	19.02%	(11,206.38)
BNP Paribas	N/A	No	Foreign exchange forwards	—	2013-1-29	2015-3-12	333,810.82	—	358,386.20	15.09%	(8,889.32)
CITIC Bank	N/A	No	Foreign exchange forwards	—	2013-8-6	2015-3-12	158,747.41	—	91,612.56	3.86%	(2,271.86)
Other banks	N/A	No	Foreign exchange forwards	—	2013-5-14	2015-3-10	282,019.80	—	296,385.94	12.48%	(7,359.44)
Total				—	—	—	1,335,689.79	—	1,260,339.43	53.07%	(29,727.00)

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, and “Announcement of Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2014,” both dated 26 March 2014.

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 and “Announcement of Resolutions of the 2013 Annual General Meeting” dated 29 May 2014.

Report of the Board of Directors

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

- Value-protection derivative investments were conducted by the Company during the first half of 2014. 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 derivative 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 derivative 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, approval 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 Company has recognised gains from investments in derivatives during the reporting period. Total losses recognised for the reporting period amounted to RMB297.27 million, comprising losses from fair-value change of RMB261.02 million and recognised investment losses of RMB36.25 million. Corresponding gains upon revaluation of foreign currency exposure amounted to RMB194.68 million (where revaluation gains in operating foreign currency exposure of approximately RMB114.26 million was recorded in the income statement, revaluation gains in designated net investment of approximately RMB80.42 million was recorded in the balance sheet). Aggregated exchange losses after offsetting was RMB102.59 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 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 shareholders of the listed company as at the end of the reporting period.

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

Report of the Board of Directors

(3) Use of Proceeds

① Overview of Corporate Bonds (12中興01)

The Company issued corporate bonds (the “Issue”) on 13 June 2012 with a finalized 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, the 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

☐ Applicable ☒ N/A

③ Change in the use of issue proceeds

☐ Applicable ☒ N/A

(4) Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

Name of company	Corporate type	Business sector	Principal products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Manufacturing	Software development	RMB51.08 million	17,405,653	6,019,333	9,705,198	341,661	1,382,000
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Subsidiary	Communications services	Technical services for communications engineering	RMB50 million	4,409,034	801,991	1,415,682	159,665	132,029
PT. ZTE Indonesia	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering installation	USD2.20 million	1,553,054	183,479	621,983	180,810	140,900
ZTE Telecom India Private Limited	Subsidiary	Communications	Sales of communications products and technical support	INR2,242,658,600	2,282,384	(854,518)	780,805	130,667	135,980
ZTE (Thailand) Co., Ltd.	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	THB 50 million	1,618,542	154,805	556,078	143,461	114,664
ZTE HK	Subsidiary	Information technology	General business	HKD995 million	28,177,273	2,362,313	9,732,545	245,732	175,437

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.

(5) Significant investments using funds other than issue proceeds

☐ Applicable ☒ N/A

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

☒ Applicable ☐ N/A

Preliminary results announcement	Significant growth		
	From the beginning of the year to the end of the next reporting period (Nine months ended 30 September 2014)	Same period last year (Nine months ended 30 September 2013)	Increase/decrease (%)
Estimated accumulated net profit (RMB in ten thousands)	Profit: 170,000–190,000	Profit: 55,160	Increase: 208.19%–244.45%
Basic earnings per share (RMB/share)	Profit: 0.49–0.55	Profit: 0.16	Increase: 206.25%–243.75%
Explanatory remarks on the preliminary results announcement	This is mainly attributable to the Group's estimation that there will be ongoing improvements to contract profitability and return on investment for the nine months ended 30 September 2014. Supported by ongoing 4G constructions in China market and the Group's investments in strategic products such as routers and chips, the Group is reporting sound contract revenue and estimates year-on-year growth in operating revenue for the third quarter of 2014, while more effective control over exchange losses is placed for the nine months ended 30 September 2014.		

Note: The preliminary results announcement has not been pre-audited by certified public accountants, "net profit" means net profit attributable to shareholders of the listed company.

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

☐ Applicable ☒ N/A

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

☐ Applicable ☒ N/A

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

☐ Applicable ☒ N/A

Report of the Board of Directors

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

☐ Applicable ☒ N/A

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

New subsidiaries incorporated during the first half of 2014 included tier-two subsidiaries 南京中興集群軟件有限公司 and ZTE HK CORPORATION DOMINICAN REPUBLIC, SRL and tier-four subsidiary established by way of acquisition included ZTE Operations GmbH.

Anhui Wantong Posts and Telecommunication Company Limited, a subsidiary of the Company, has disposed of its 100% equity interests in Anhui Yalong Communication Technology Company Limited. The date of equity interest disposal was 10 April 2014 and Anhui Yalong Communication Technology Company Limited was deconsolidated from the Group as from April 2014.

18. **Profit distribution or capitalisation of capital reserves**

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

Pursuant to the profit distribution proposal considered and approved at the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 26 March 2014, a cash dividend of RMB 0.3 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,437,541,278 shares as at 31 December 2013. The profit distribution proposal was considered and approved at the 2013 Annual General Meeting of the Company held on 29 May 2014 and was completed on 24 July 2014. For details of implementation, please refer to the section headed "Material Matters — (II) Implementation of the 2013 profit distribution plan of the Company" in this report.

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 June 2014) 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."

The Company did not conduct any adjustments or changes to its profit distribution policy during the reporting period.

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

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

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

20. Reception of investors and analysts, communications and press interviews of the Company during the reporting period

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	January 2014	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2014	Hong Kong	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	February 2014	Shenzhen	Shenyin Wanguo investors' meeting	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	April 2014	Shenzhen	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	May 2014	Shanghai	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2014	Hong Kong	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	May 2014	Hong Kong	BNP investors' meeting	Customers of BNP	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Chengdu	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Shanghai	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Hubei	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Shanghai	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Hangzhou	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Beijing	Jefferies investors' meeting	Customers of Jefferies	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Beijing	JP Morgan investors' meeting	Customers of JP Morgan	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Shenzhen	Macquarie Securities investors' meeting	Customers of Macquarie Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2014	Hong Kong	Results presentation	Analysts and investors	2013 Annual Report	Published announcements and regular reports
Presentation of the Company	March 2014	Hong Kong	Results presentation	Analysts and investors	2013 Annual Report	Published announcements and regular reports

Report of the Board of Directors

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
Company visits by investors	January to June 2014	Company	Verbal	Overseas investors Teng Yue Partners, BOCI, Genesis Capital, China Orient Asset Management, 石壁投資, Mirae Asset Global Investment, Pine River, 睿柏資本, Ji-Asia, Mizuho Securities Asia Limited, JK capital, Kayak Investment Partners, CIMB, Capital International, Morgan Stanley, Public Mutual, Macquarie Securities, HI Asset Management, HSBC, Momentum Investments, Old Mutual Investment Group, Stanlib, Credit Suisse, Ashmore Equities Investment Management, Haitong International, ISI Group, Marvin&Palmer Associates, Inc., SMBC Friend Securities, Claw Capital	Day-to-day operations of the Company	Published announcements and regular reports
	January to June 2014	Company	Verbal	Domestic investors Hua Tai United Securities, China AMC, Orient Securities Asset Management, Sealand Securities, 深圳盈泰投資, Huatai Financial Holdings, 拉芳投資, Guangfa Securities	Day-to-day operations of the Company	Published announcements and regular reports

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

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

Revenue

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

Unit: RMB in millions

Product segment	For the six months ended 30 June 2014		For the six months ended 30 June 2013 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	21,835.7	57.9%	19,050.5	50.8%
Handset terminals	10,406.2	27.6%	12,460.9	33.2%
Telecommunications software, services and other products	5,455.4	14.5%	5,993.4	16.0%
Total	37,697.3	100.0%	37,504.8	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

Region	For the six months ended 30 June 2014		For the six months ended 30 June 2013 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	19,259.6	51.1%	18,750.1	50.0%
Asia (excluding the PRC)	5,867.7	15.6%	6,327.1	16.9%
Africa	2,210.7	5.9%	3,034.9	8.1%
Europe, the Americas and Oceania	10,359.3	27.4%	9,392.7	25.0%
Total	37,697.3	100.0%	37,504.8	100.0%

The Group reported RMB37,697.3 million in operating revenue for the first six months of 2014, a 0.5% increase as compared to the same period last year, of which the domestic operating revenue increased by 2.7% to RMB19,259.6 million, while the international operating revenue decreased by 1.7% to RMB18,437.7 million, as compared to the same period last year.

Analysed by product, there was a slight increase in the Group's operating revenue for the first six months of 2014 as compared to the same period last year, which reflected mainly the combined effect of the increase in operating revenue from carriers' networks in the domestic market and the decrease in operating revenue from handset terminals in the domestic market. Year-on-year growth in the Group's operating revenue from carriers' networks was mainly attributable to the increase in operating revenue from TD-LTE system equipment and FDD-LTE system equipment. Year-on-year decline in the Group's operating revenue from handset terminals was mainly attributable to the decrease in operating revenue from 3G handsets in the domestic market. Year-on-year decline in the Group's operating revenue from telecommunications software, services and other products mainly reflected the decline in operating revenue from video and network terminals in the domestic market and services in the international market.

Cost of Sales and Gross Profit

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

Unit: RMB in millions

Product segment	For the six months ended 30 June 2014		For the six months ended 30 June 2013 (Restated)	
	Cost of sales	As a percentage of product segment revenue	Cost of sales	As a percentage of product segment revenue
Carriers' networks	14,124.7	64.7%	12,887.5	67.6%
Handset terminals	8,780.9	84.4%	10,551.1	84.7%
Telecommunications software, services and other products	3,670.6	67.3%	4,486.5	74.9%
Total	26,576.2	70.5%	27,925.1	74.5%

Report of the Board of Directors

Unit: RMB in millions

Product segment	For the six months ended 30 June 2014		For the six months ended 30 June 2013 (Restated)	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	7,711.0	35.3%	6,163.0	32.4%
Handset terminals	1,625.3	15.6%	1,909.8	15.3%
Telecommunications software, services and other products	1,784.8	32.7%	1,506.9	25.1%
Total	11,121.1	29.5%	9,579.7	25.5%

Cost of sales of the Group for the first six months of 2014 decreased 4.8% as compared to the same period last year to RMB26,576.2 million. The Group's overall gross profit margin for the first half of 2014 of 29.5% was 4.0 percentage points higher as compared to the same period last year, reflecting mainly higher gross profit margin for carriers' networks and telecommunications software systems, services and other products as compared to the same period last year.

Cost of sales of the Group's carriers' networks for the first six months of 2014 amounted to RMB14,124.7 million, a 9.6% increase compared to the same period last year. The relevant gross profit margin was 35.3% versus 32.4% for the same period last year. The increase in gross profit margin of carriers' networks mainly reflected the improvement in gross profit margin for TD-LTE system equipment and FDD-LTE system equipment, which accounted for a significant share in segment revenue.

Cost of sales of the Group's handset terminals for the first six months of 2014 amounted to RMB8,780.9 million, a decline of 16.8% compared to the same period last year. The relevant gross profit margin was 15.6% versus 15.3% for the same period last year. The increase in gross profit margin of handset terminals reflected mainly improved gross profit margin for 3G/4G handsets, data cards and etc. in the international market.

Cost of sales of the Group's telecommunications software systems, services and other products for the first six months of 2014 amounted to RMB3,670.6 million, decreasing by 18.2% compared to the same period last year. The relevant gross profit margin was 32.7%, compared to 25.1% for the same period last year. The increase in gross profit margin of telecommunications software systems, services and other products was mainly attributable to improved gross profit margin for services in the international market, which accounted for a significant share in segment revenue.

Other Income and Gains

Other income and gains of the Group for the first six months of 2014 amounted to RMB2,444.3 million, representing an 11.3% decrease compared to RMB2,756.7 million for the first six months of 2013. The decrease reflected mainly investment gains generated from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. for the same period last year and the absence of such gains for the period.

Research and Development Costs

The Group's research and development costs for the first six months of 2014 increased by 13.8% to RMB4,126.5 million from RMB3,627.6 million for the first six months of 2013, and increased by 1.2 percentage points from 9.7% for the first six months of 2013 to 10.9% as a percentage of operating revenue, attributable mainly to the increase in the Group's investment in the research and development of 4G, 5G, high-end routers and core chips during the period.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the first six months of 2014 increased by 1.4% to RMB4,806.4 million from RMB4,740.2 million for the first six months of 2013, reflecting mainly increased investment in the European and U.S. markets by the Group during the period. Selling and distribution expenses as a percentage of operating revenue was 12.7% for the first six months of 2014, increasing by 0.1 percentage point compared to 12.6% for the first six months of 2013.

Administrative Expenses

Administrative expenses of the Group for the first six months of 2014 increased by 5.4% to RMB1,142.8 million, as compared to RMB1,084.7 million for the first six months of 2013, mainly attributable to the increase in the Group's bank charges and amortisation and depreciation expenses for the period. Administrative expenses as a percentage of operating revenue increased by 0.1 percentage point to 3.0% from 2.9% for the first six months of 2013.

Other Expenses

Other expenses of the Group for the first six months of 2014 decreased by 21.9% to RMB1,051.6 million, as compared to RMB1,346.3 million for the first six months of 2013, reflecting mainly exchange gains arising from exchange rate volatility for the period, as opposed to exchange losses arising from exchange rate volatility for the same period last year.

Profit from Operating Activities

The Group's profit from operating activities for the first six months of 2014 increased by 58.6% to RMB2,438.1 million, as compared to RMB1,537.5 million for the first six months of 2013, while the operating profit margin increased by 2.4 percentage points from 4.1% for the first six months of 2013 to 6.5% for the first six months of 2014, primarily as a result of higher gross profit recorded by the Group for the period.

Finance Costs

Finance costs of the Group for the first six months of 2014 decreased by 1.6% to RMB753.7 million compared to RMB766.1 million for the first six months of 2013, reflecting mainly the decrease in interest expenses as a result of the Group's improved cash flow conditions for the period.

Income Tax Expense

The Group's income tax expense for the first six months of 2014 was RMB472.7 million, which was 14.6% higher as compared to RMB412.5 million for the first six months of 2013, reflecting mainly the increase in profit recorded by certain subsidiaries of the Group for the period.

Profit Attributable to Non-Controlling Interests

The Group's profit attributable to non-controlling interests for the first six months of 2014 amounted to RMB43.1 million, representing an increase of 124.5% compared to RMB19.2 million for the first six months of 2013, mainly attributable to the increase in profit recorded by certain subsidiaries of the Group for the period.

Other Comprehensive Income

Other comprehensive income of the Group for the first six months of 2014 improved by 98.5% to RMB-1.5 million, compared to RMB-99.8 million for the first six months of 2013, reflecting mainly gains from the difference arising from the translation of the Group's statements denominated in foreign currencies for the period, as compared to losses for the same period last year.

Report of the Board of Directors

Debt-Equity Ratio

The Group's debt-equity ratio for the first six months of 2014 was 53.9%, decreasing by 7.1 percentage points as compared to 61.0% for the first six months of 2013. The decrease was mainly attributable to the combined effect of the decrease in interest-bearing liabilities for the period after loan repayments by the Group and the increase in reserves representing appropriations from operating profit.

Cash Flow Data

Unit: RMB in millions

	For the six months ended 30 June 2014	For the six months ended 30 June 2013
Net cash inflow (outflow) from operating activities	1,038.3	(5,660.6)
Net cash outflow from investing activities	(1,894.5)	(419.8)
Net cash outflow from financing activities	(3,276.7)	(707.0)
Net decrease in cash and cash equivalents	(4,132.9)	(6,787.4)
Cash and cash equivalents at the end of the period	16,051.2	15,915.7

Operating Activities

The Group reported net cash inflow from operating activities of RMB1,038.3 million for the first six months of 2014, compared to net cash outflow of RMB5,660.6 million for the first six months of 2013, mainly reflecting year-on-year increase of cash received from sales of goods and provision of services by RMB5,337.2 million, increase in other cash received relating to operating activities by RMB326.6 million and decrease in tax rebates by RMB631.1 million; coupled with decrease of cash paid for the purchase of goods and services by RMB2,129.7 million, decrease in cash payments to and on behalf of employees by RMB182.6 million, increase in tax payments by RMB476.8 million, increase in other cash payments relating to operating activities by RMB345.0 million and decrease in cash payments relating to dividend distribution or interest repayment by RMB175.7 million.

Investing Activities

The Group's net cash outflow from investing activities was RMB1,894.5 million for the first six months of 2014 and RMB419.8 million for the first six months of 2013, reflecting mainly cash inflow from the Group's disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. for the same period last year and the absence of such business for the period.

Financing Activities

The Group's net cash outflow from financing activities for the first six months of 2014 was RMB3,276.7 million, compared to net cash outflow of RMB707.0 million for the first six months of 2013, reflecting mainly the combined effect of an increase in cash paid for debt settlement by RMB11,643.3 million and an increase in cash received from borrowings by RMB9,088.6 million.

Indebtedness

Unit: RMB in millions

Item	30 June 2014	31 December 2013
Secured bank loans	835.7	890.3
Unsecured bank loans	16,960.2	19,838.3

Unit: RMB in millions

Item	30 June 2014	31 December 2013
Short-term bank loans	13,128.6	15,343.0
Long-term bank loans	4,667.3	5,385.6

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. The Group's borrowings were mainly denominated in USD, apart from certain RMB loans.

The balance of the Group's bank loans as at 30 June 2014 was RMB2,932.7 million less than that as at 31 December 2013. The reduction mainly reflected improvements in the Group's operating cash flow and the repayment of certain bank loans during the period.

Capital Commitments

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

Unit: RMB in millions

Item	30 June 2014	31 December 2013
Land and buildings:		
Contracted, but not provided for	246.4	264.3
Investment in associates:		
Contracted, but not provided for	27.8	17.3
Land and buildings:		
Authorised, but not contracted	21,721.7	21,566.5

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2013 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

(IV) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2014 AND RISK EXPOSURES

1. Business outlook for the second half of 2014

Looking to the second half of 2014, opportunities as well as challenges will abound in the traditional telecommunications industry, as traditional telecommunications sectors and emerging internet sectors continue to evolve with innovative forces rapidly overhauling traditional enterprises and business models. In connection with carriers' networks, the telecommunication industry will welcome a new investment cycle with large-scale deployment of 4G networks around the world, especially the issue of 4G licenses in China and the approval of the trial operation of TD-LTE/LTE FDD hybrid networking. However, carriers must address the issue of "dumb pipe" or "dumb information" as they become fully engaged in 4G operations, and business opportunities will abound for those who are able to create value out of information. In the government and corporate service sectors, the in-depth amalgamation of the Mobile Internet and traditional industries, the information revolution triggered by emerging technologies such as the Internet of Things, Cloud Computing and Big Data, as well as the increasingly heightened issue of information security will also present market opportunities. In connection with

Report of the Board of Directors

handset terminals, the next-generation smart terminals will be more intelligent and flexible with more integrated features. There is a trend to develop the smart terminal into a wearable device, as innovation and the fulfillment of consumers' needs becomes a crucial factor.

To address the opportunities and challenges described above, the Group will integrate and focus its resources in a scientific manner during the second half of 2014 in adherence to its core business principle of "Innovation and Intensification." We will persist in the operation of carriers' network products and strengthen the vertical integration of our government and corporate network business and handset terminal business, striving to realise breakthroughs in our profit model.

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.

Material Matters

(I) CORPORATE GOVERNANCE

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

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

The Company conducted with focused efforts the following internal control work in the first half of 2014 to ensure the consistent implementation of internal control regulation and the publication of the internal control assessment report and the internal control audit report in accordance with the "Basic Rules for Corporate Internal Control" (《企業內部控制基本規範》) and "Corporate Internal Control Supplementary Guide" (《企業內部控制配套指引》) and to enhance the Company's internal control standards, in accordance with requirements of the "Notice on the Publication of the Corporate Internal Control Supplementary Guide" (《關於印發企業內部控制配套指引通知》) issued by five ministries and commissions including the Ministry of Finance of the PRC and the CSRC, the "Notice on Procuring Work relating to Trial Internal Control Rules for Shenzhen Listed Companies" (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by CSRC Shenzhen Branch:

The Company's internal control work during the first quarter of 2014 mainly involved overall review and evaluation of its internal control work in 2013, rectifying any deficiencies identified and output relevant documentation. For details, please refer to the section headed "3. Material Matters — 3.7 Development and implementation of internal control in the first quarter of 2014" in the 2014 first quarterly report of the Company.

Details of the development and implementation of internal control in the second quarter of 2014 are as follows:

- (1) The Internal Control and Audit Department made improvements to the conventions, processes and methodologies relating to risk management and internal control in a systematic manner to drive the advanced development of risk management and internal control, while engaging an independent consultant agency to enhance specialised capabilities in risk management and internal control;
- (2) Senior management of all business units took the lead to drive the incorporation of risk management and internal control in business management and advanced the building of the risk management culture on all fronts;
- (3) The Company further enhanced risk control in relation to the business segments of government and corporate networks and terminals as well as legal and regulatory compliance;
- (4) The Internal Control and Audit Department organized a company-wide programme for the improvement and revamping of self-assessment of internal control and the internal control manual.

Material Matters

2. During the period from 1 January to 30 June 2014, the Company fully complied with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules.

3. **Securities Transactions by Directors and Supervisors**

The Directors and Supervisors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model code”) as set out in Appendix 10 to the Hong Kong Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

4. **The Audit Committee**

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2014.

(II) IMPLEMENTATION OF THE 2013 PROFIT DISTRIBUTION PLAN OF THE COMPANY

The 2013 profit distribution plan of the Company was considered and approved at the 2013 Annual General Meeting of the Company held on 29 May 2014 and distribution was completed on 24 July 2014. A cash dividend of RMB0.3 (before tax) for every 10 shares held was paid on the basis of the total share capital of the Company of 3,437,541,278 as at the record date (comprising 2,807,955,833 A shares and 629,585,445 H shares). The record date for A shares is 23 July 2014 and the ex-dividend date for A shares is 24 July 2014. The record date for H shares is 9 June 2014 and the dividend payment date for H shares is 24 July 2014. For details of implementation, please refer to the “Information on Payment of Final Dividend” published by the Company on 16 July 2014.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR SHARE CAPITAL INCREASE BY WAY OF TRANSFER FROM RESERVES FOR THE SIX MONTHS ENDED 30 JUNE 2014

The Company does not propose any profit distribution or share capital increase by way of transfer from reserves for the six months ended 30 June 2014.

(IV) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material Litigation and Arbitration

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

- (1) 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 and 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 filed an appeal with Guangdong Higher People's Court against the said judgement, and the Guangdong Higher People's Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 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. Case admission fees and authentication fees paid for the first trial and second trials relating to China Construction Fifth Division amounted to RMB2,699,200, of which an amount of RMB653,700 was borne by the Company.

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 for the current period.

Material Matters

- (2) 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 the Company and ZTE USA, Inc. ("ZTE USA"), a wholly-owned subsidiary of the Company. 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. On 13 June 2014, 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 15 August 2014, ITC issued its final verdict on 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.

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) 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 in serious compromise of the Company's interests.

On 12 February 2014, ICDR issued a final ruling that rejected all claims of CLEAR TALK and ruled that the Company and ZTE USA were not required to pay any amounts to CLEAR TALK. 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.

- (4) 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 RMB208 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. On 4 June 2014, the tax bureau of Sao Paulo State made a decision to official revoke the aforesaid notice of administrative penalty.

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 RMB269 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.

Material Matters

- (5) 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.

- (6) 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 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.

- (7) In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (time switched transmitter diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed the patent and issuing an injunction order against the said UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. As of now, the Court of Mannheim, Germany has yet to make a ruling. As the UMTS products of the Company and ZTE Deutschland sold in Germany do not support TSTD functions, the injunction order will not have any impact on the current business of the Company and ZTE Deutschland in Germany.

In January 2014, Vringo Infrastructure Inc. ("Vringo") filed a patent litigation with the High Court of Delhi, India against the Company and ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company, pleading for the GSM products of the Company and ZTE India supporting Macro to Micro Handover Algorithm functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the High Court of Delhi, India. In February 2014, the High Court of Delhi, India issued a provisional injunction order against the said GSM products with Macro to Micro Handover Algorithm functions. In April 2014, the Company and ZTE India filed an application to the High Court of Delhi, India for the revocation of the provisional injunction order. In August 2014, the High Court of Delhi, India revoked such provisional injunction.

In April 2014, Vringo filed a patent litigation with the Court of Rio, Brazil against the Company and ZTE Brazil, pleading for the UMTS products of the Company and ZTE Brazil supporting RNC Relocation functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In April 2014, the Court of Rio, Brazil issued a provisional injunction order against the Company and ZTE Brazil in respect of UMTS products supporting RNC Relocation functions. In April 2014, the Company and ZTE Brazil filed an application to the Court of Rio, Brazil for the revocation of the provisional injunction order. As of now, the Court of Rio, Brazil has yet to make a ruling. The provisional injunction order affects only the UMTS products of the Company and ZTE Brazil supporting RNC Relocation functions sold in Brazil.

In March 2014, the Company filed an antitrust litigation with the Intermediate Court of Shenzhen against the alleged abuse of market dominance of Vringo, and the Intermediate Court of Shenzhen has accepted such filing; the Company also filed an application for antitrust investigation to the EU Commission in April 2014 and the EU Commission has accepted such filing. Meanwhile, the Company has also filed litigations in the PRC, Germany, India and Brazil against Vringo for its patent claims to be ruled invalid.

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 30 June 2014 where BRL amounts are translated at the exchange rate of BRL1:RMB2. 7853.

2. GENERAL MEDIA QUERIES

☐ Applicable ☒ N/A

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

(VI) ASSET TRANSACTIONS

The Group was not engaged in any material asset acquisition, disposal or business merger commencing or subsisting during the reporting period.

Material Matters

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

The share option incentive scheme implemented by the Company is aimed at further improving the corporate governance structure of the Company, bolstering its incentive mechanism, strengthening the loyalty and sense of responsibility on the part of the management team and key employees of the Company, retaining talents to facilitate the sustainable development of the Company and ensure the achievement of the Company's development objectives. The share option incentive scheme implemented by the Company has been approved by regulatory authorities including SASAC of the State Council, CSRC and Hong Kong Stock Exchange and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and General Meeting of the Company. Pursuant to the "Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company" considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 Scheme Participants.

The details of the share options held by Scheme Participants during the reporting period 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	30,000	0	0	30,000	0	0
Xie Weiliang	Director	30,000	0	0	30,000	0	0
Wang Zhanchen	Director	30,000	0	0	30,000	0	0
Zhang Junchao	Director	30,000	0	0	30,000	0	0
Dong Lianbo	Director	30,000	0	0	30,000	0	0
Tian Wenguo	Executive Vice President	200,000	0	0	200,000	0	0
Qiu Weizhao	Executive Vice President	500,000	0	0	500,000	0	0
Fan Qingfeng	Executive Vice President	500,000	0	0	500,000	0	0
Zeng Xuezhong	Executive Vice President	450,000	0	0	450,000	0	0
Zhao Xianming	Executive Vice President	500,000	0	0	500,000	0	0
Pang Shengqing	Senior Vice President	450,000	0	0	450,000	0	0
Xu Huijun	Senior Vice President	350,000	0	0	350,000	0	0
Ye Weimin	Senior Vice President	400,000	0	0	400,000	0	0
Zhu Jinyun	Senior Vice President	450,000	0	0	450,000	0	0
Zhang Renjun	Senior Vice President	350,000	0	0	350,000	0	0
Chen Jianzhou	Senior Vice President	450,000	0	0	450,000	0	0
Cheng Lixin	Senior Vice President	200,000	0	0	200,000	0	0
Feng Jianxiong	Board Secretary	400,000	0	0	400,000	0	0
Other Participants	1,510 persons	97,639,000	0	0	97,639,000	0	0
Total	1,528 persons	102,989,000	0	0	102,989,000	0	0

The share option incentive scheme of the Company 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 can be exercised by the following proportion at the exercise price of RMB13.69 per A share 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%

For further details of the share option incentive scheme implemented by the Company, please refer to the section headed “Material Matters – (VI) Implementation and Impact of the Company’s Share Option Incentive Scheme” in the 2013 Annual Report of the Company.

(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 was 4.20% for a term of 3 years. The issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors. Corporate bonds under the Issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code “112090” and the abbreviated bond name “12中興01”.

The corporate bond interest payment for 2014 was completed on 13 June 2014 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 4 June 2014.

Material Matters

As at 30 June 2014, there were 203 holders of corporate bonds of the Company, the top ten of which were as follows:

No.	Name of bond holders	Number of bonds held	Bond holding ratio
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
3	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	4,660,000	7.77%
5	Sha Dinan	1,853,496	3.09%
6	China Merchants Securities Co., Ltd.	1,597,205	2.66%
7	China Merchants Bank Co., Ltd. — BOC Stable Profit and Dividend Bond Fund	1,518,820	2.53%
8	Bank of China Investment Management- BOC — Bank of China Limited	1,241,882	2.07%
9	China Merchants Bank Co., Ltd. — BOC Multi-strategic Flexible Allocation Hybrid Fund	1,022,991	1.70%
10	NSSF Portfolio #409	1,000,000	1.67%

(IX) THIRD-PARTY INVESTMENTS AND CONNECTED TRANSACTIONS BY THE COMPANY

嘉興市興和創業投資管理有限公司 (Jiaxing Xinghe Capital Management Company Limited) (“Xinghe Capital”), a wholly-owned subsidiary of ZTE Capital (a subsidiary of the Company) established 嘉興市興和股權投資合夥企業(有限合夥) (Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)) (“Xinghe Partnership”) as the sole general partner by way of promotion. Xinghe Partnership is focused on the equity investment of unlisted companies within the TMT industry (technology, media and telecommunication). As at the date of this report, funds with a total amount of RMB346 million were raised, of which: RMB10 million has been contributed in cash by Xinghe Capital as general partner and RMB100 million and RMB10 million have been contributed in cash by the Company and Mr. Yin Yimin (Director of the Company), each as a limited partner, respectively and RMB226 million has contributed in cash by other limited partners as agreed in the partnership agreements executed by them. In accordance with the Shenzhen Listing Rules and the Hong Kong Listing Rules, the respective capital contributions to and subscriptions for Xinghe Partnership by Xinghe Capital, the Company and Mr. Yin Yimin (Director of the Company) constitute connected transactions.

The aforesaid external investment and connected transactions were considered and approved at the Seventeenth Meeting of the Sixth Session of the Board of Directors of the Company held on 17 April 2014. For details please refer to the “Announcement of Resolutions of the Seventeenth Meeting of the Sixth Session of the Board of Directors” and the “Overseas Regulatory Announcement” published on 17 April 2014. The partnership agreement relating to the Xinghe Partnership was entered into on 11 June 2014. For details please refer to the announcement entitled “Connected Transaction - Establishment of Partnership” published on 12 June 2014. Xinghe Partnership has currently been approved by the bureau of industrial and commercial administration of Nanhu District of Jiaxing and completed registration as partnership. For details please refer to the “Announcement - Progress of External Investments” published by the Company on 23 June 2014.

(X) 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 represent connected transactions reaching 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
Zhongxingxin and subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of 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 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.	24,887.28	1.11%	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	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	Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	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.	38,638.98	1.72%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Huatong	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,259.79	0.06%	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,088.61	0.05%	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"

Material Matters

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Single room: RMB240-380/night; Double room: RMB240-380/night; Suite: RMB500-600/night.	1,819.82	0.08%	Tele-transfer	N/A	27 April 2013	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Zhongxing Development	A company for which the Chairman of the Company concurrently 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., and lease of 25 ground level parking spaces and 138 underground parking spaces by the Company from the connected party		Monthly rent of RMB130/sq.m.; monthly rent of ground level parking spaces of RMB150 each; monthly rent of underground parking spaces of RMB500 each. (property management undertaken by ZTE and no management fees are payable)	2,286.66	8.18%	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"
Chongqing Zhongxing Development	Subsidiary of the company for which the Chairman of the Company concurrently 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.	401.53	1.44%	Tele-transfer	N/A	14 December 2011	Announcement No. 201153 "Announcement on Connected Transactions"
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently 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.	2,294.75	24.21%	Tele-transfer	N/A	27 April 2013	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Financial services	The provision of deposit services by ZTE Group Finance to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	3,713.91 <small>Note 1</small>	1.36%	Tele-transfer	N/A	2014-5-30	Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
航天歌华	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	9,376.02	0.25%	Tele-transfer or bank acceptance bill	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Total	—	—	—	—	—	85,767.35	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 of the Company 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 2014 be capped at RMB1,000 million (before VAT); At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2014 be capped at RMB800 million (before VAT); At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2014 be capped at RMB82 million and RMB18 million, respectively (before VAT);										

At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company 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 of the Company 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 Second Meeting of the Sixth Session of the Board of Directors of the Company held on 26 April 2013, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and 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 and 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;

At the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2014 shall be capped at RMB54 million;

At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the sales of digital communications products and communications products to 航天嘉华 by the Company in 2014 be capped at RMB600 million (before VAT); 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 1: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the first half of 2014.

Note 2: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2014, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.

Note 3: For details of the connected transactions, please refer to Note VI to the financial statements prepared in accordance with PRC ASBES.

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

3. Connected transactions of the Company involving joint investment in third parties during the reporting period

For details of connected transactions of the Company involving joint investment in third parties during the reporting period, please refer to “(IX) Third-party investments and connected transactions by the Company” under this section.

4. Creditors and debtors with connected parties

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

5. Other material connected transactions

At the Eighteenth Meeting Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, the major connected transaction between the Company and Zhongxing Hetai was considered and passed as follows (for details, please refer to the “Overseas Regulatory Announcement” published by the Company on 29 May 2014):

- ① The aggregate amount of continuing connected transactions between the Company and Zhongxing Hetai and its subsidiaries relating to purchases for hotel services for the period from 1 July 2014 to 30 June 2015 was estimated at RMB90 million;
- ② The aggregate amount of continuing connected transactions between the Company and Zhongxing Hetai and its subsidiaries relating to the lease of properties and related equipment for the period from 1 July 2014 to 30 June 2015 was estimated at RMB75 million.

Material Matters

(XI) THERE WAS NO APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS OF THE COMPANY BY THE CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES DURING THE REPORTING PERIOD.

(XII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. There was no trust, contract management or lease of assets of other companies by the Company or of the Company's assets by other companies commencing or subsisting during the reporting period.
2. Third-party guarantees of the Group during the reporting period

(1) *Third-party guarantees entered into during the reporting period*

A. *Guarantee provided for joint tender partnership*

To facilitate the participation in the tender for the Digital Migration Project Phase I of Zambian Ministry of Information and Broadcasting Services (the "Project"), the Company proposed to provide a Letter of Guarantee for Tender with an amount of ZMW1 million (equivalent to approximately USD160,000 based on the foreign currency statement book exchange rate of the Company as at 30 June 2014) for the joint tender partnership, namely the Company and Arelis Broadcast SAS of France, in respect of the bidding and evaluation process for the Project. For details, please refer to the "Announcement on Third-party Guarantee" published by the Company on 10 February 2014.

The aforesaid matter was considered and approved at the Fifteenth Meeting of the Sixth Session of the Board of Directors of the Company. For details, please refer to the "Announcement of Resolutions of the Fifteenth Meeting of the Sixth Session of the Board of Directors" published by the Company on 10 February 2014.

B. *Provision of guarantee for ZTE HK and conduct of interest rate swap transactions by ZTE HK*

In order to further optimise the long-term and short-term debt structure of the Company and the subsidiaries included in its consolidated financial statements, reduce exposure to assets and liabilities denominated in foreign currencies, and meet additional working capital requirements for the Company's medium/long-term development at appropriate finance costs, the Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong in 2014, with ZTE HK, its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK, in order to secure debt financing at favourable costs. To avoid interest rate risks associated with the aforesaid debt financing, ZTE HK proposed to conduct interest rate swap transactions with a nominal principal amount of not more than USD600 million at selected timing.

The aforesaid matter was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors and the 2013 Annual General Meeting of the Company. For details, please refer to the “Announcement of Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors,” “Announcement on The Provision of Guarantee for A Wholly-owned Subsidiary” and “Announcement on The Proposed Interest Rate Swap Transactions by A Wholly-owned Subsidiary” published on 26 March 2014 and the “Announcement on Resolutions of the 2013 Annual General Meeting” published on 29 May 2014 by the Company.

In July 2014, ZTE HK (as borrower) entered into a USD450 million syndicate loan agreement with 12 international banks including Bank of China (Hong Kong) Limited (“BOCHK”). At the same time, the Company (as guarantor) entered into a guarantee agreement with BOCHK (as agent of the lending banks) to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks to guarantee ZTE HK’s due performance of obligations for the payment of the loan principal, interest, fees, expenses and other amounts payable under the syndicate loan agreement.

(2) *Third-party guarantees as at the end of the reporting period*

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

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Djibouti Telecom S.A.	19 April 2007 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Zena Technologies & Telecommunication Systems Co. WLL ^{Note 1}	18 December 2013 201375	KWD0.82 million	25 January 2014	KWD0.82 million	Guarantee by pledge	Commencing on the date of submission of the tender for the GPON Project II of the Ministry of Communications of Kuwait and ending on the date of announcement of the tender award for the project	No	No
Joint tender partnership between the Company and Arellis Broadcast SAS of France ^{Note 2}	11 February 2014 201406	ZMW1 million	10 February 2014	ZMW1 million	Assurance	Commencing on the date of issuance of the Letter of Guarantee for Tender and ending on: (1) the receipt by the guarantor of a copy of contract signed by the joint tender partnership and the issue of a performance guarantee letter in accordance with the instructions of the joint tender partnership in the event of a successful bid by the joint tender partnership; or (2) the earlier of: A. the receipt by the guarantor of a notice issued by the beneficiary to the joint tender partnership notifying the names of the successful bidders; and B. 28 days after the expiry of the joint tender partnership’s bid, in the event of an unsuccessful bid by the joint tender partnership; or (3) 10 August 2014.	No	No
湖南中興網信科技有限公司 ^{Note 3}	N/A	RMB25 million	29 May 2014	Approximately RMB7.30 million	Joint liability	24 June 2014 to 29 September 2014	No	No
Total amount of third-party guarantee approved during the reporting period (A1)		RMB26,006,900		Total amount of third-party guarantee actually incurred during the reporting period (A2)			RMB27,470,500	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB95,170,500		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)			RMB77,470,500	

Material Matters

Guarantees provided by the Company on behalf of subsidiaries									
	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	
Guaranteed party									
Closed Joint-Stock Company CJSC TK Mobile ^{Note 4}	12 May 2009 200917	USD70.60 million	N/A	—	Pledge of equity	—	No	No	
PT. ZTE Indonesia ^{Note 4}	6 June 2009 200926	USD40 million	10 June 2009	USD40 million	Joint liability	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed	Yes	No	
PT. ZTE Indonesia ^{Note 4}	6 June 2009 200926	USD5 million	17 June 2009	USD5 million	Joint liability	3.5 years or from maturity to the date on which performance of obligations of ZTE and PT. ZTE Indonesia under the "Framework Agreement for Equipment Purchase" and "Framework Agreement for Technical Support" is completed, whichever later	Yes	No	
ZTE (H.K.) Limited ^{Note 5}	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD900 million ^{Note 5}	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 the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	No	No	
PT. ZTE Indonesia ^{Note 7}	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the "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	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed (whichever is later)	No	No	
ZTE (H.K.) Limited ^{Note 8}	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	N/A	—	Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	No	No	
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB4,000,000,000		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)				0	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB10,460,446,400		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)				RMB5,936,757,500	
Total amount guaranteed by the Company (sum of the two categories aforesaid)									
Total amount of guarantee approved during the reporting period (A1+B1)		RMB4,026,006,900		Total amount of guarantee actually incurred during the reporting period (A2+B2)				RMB27,470,500	
Total amount of guarantee approved as at the end of the reporting period (A3+B3)		RMB10,555,616,900		Total amount of guarantee actually incurred as at the end the reporting period (A4+B4)				RMB6,014,228,000	
Total amount of guarantee (A4+B4) as a percentage of net assets of the Company Including:						25.32%			
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)						RMB5,944,057,500			
Amount of total guarantee exceeding 50% of net assets (E)						0			
Aggregate amount of the three guarantee amounts stated above (C+D+E)						RMB5,944,057,500			
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: 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 0.82 million KWD be provided by the Company for Zena Technologies & Telecommunication Systems Co. WLL, its agent company in Kuwait. The said Letter of Guarantee for Tender was issued in January 2014.

Note 2: It was considered and approved at the Fifteenth Meeting of the Sixth Session of the Board of Directors that a Letter of Guarantee for Tender with an amount of ZMW1 million for the joint tender partnership, namely the Company and Arelis Broadcast SAS of France. The said Letter of Guarantee for Tender was issued in February 2014.

- Note 3: It was considered and passed at the meeting of the board of directors of ZTE ICT Company Limited ("ZTE ICT"), a subsidiary of the Company, that approval be given to the application by 湖南中興網信科技有限公司 ("Hunan ICT"), a wholly-owned subsidiary of ZTE ICT, to Bank of China Corporation, Shenzhen Branch for a letter of guarantee with a total amount of not more than RMB25 million under the credit facilities available to ZTE ICT, and to the provision of joint liability guarantee by ZTE ICT in respect of the liability of Hunan ICT under the said letter of guarantee.
- Note 4: It was respectively considered and 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, and 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 considered and approved at the First Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. The USD40 million performance guarantee provided by the Company for ZTE Indonesia and the USD5 million letter of performance guarantee issued by the relevant bank were released in January 2014. As at the end of the reporting period, the guarantee provided by the Company in respect of CJSC TK Mobile's bank loans by way of pledge of equity was pending performance as the relevant agreement had not yet been signed.
- Note 5: In 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. At the same time, 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 favour of the lending banks for ZTE HK. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 April 2011. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and 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. In July 2014, ZTE HK made a repayment of USD450 million in loans to the lending banks. In accordance with the guarantee agreement, the guarantee amount refers to the amount payable under the syndicate loan agreement, therefore the amount of joint liability assurance provided by ZTE for ZTE HK in favour of the lending banks has been adjusted to not more than USD450 million.
- Note 6: It was considered and 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 was undergoing registration procedures of the State Administration of Foreign Exchange and had 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 had been executed and the USD40 million performance guarantee agreement had been signed.
- Note 8: The Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong in 2014, with ZTE HK, its wholly-owned subsidiary, as the principal. The Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 26 March 2014. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was submitted to the 2013 Annual General Meeting of the Company held on 29 May 2014 and was considered and approved. The total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. In July 2014, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD450 million syndicate loan agreement with 12 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks for ZTE HK.
- Note 9: The guaranteed amounts are translated at the book exchange rates of the Company as at 30 June 2014: USD1: RMB6.2165, EUR1: RMB8.4804, KWD1: RMB23.3703; ZMW1: RMB1.0069.
- Note 10: All third party guarantees of the Company have been submitted to the Board of Directors for its review and come into effect with the approval of two-thirds of the members of the Board of Directors. Third party guarantees which are further subject to consideration and approval at the general meeting in accordance with relevant regulations have come into effect with the approval of the general meeting following approval by the Board of Directors.

Material Matters

3. **A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company, Ms. Qu Xiaohui, Mr. Wei Wei, Mr. Chen Naiwei, Mr. Tan Zhenhui and Mr. Richard Xike Zhang as follows:**
 - (1) As at 30 June 2014, 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 30 June 2014, the balance of guarantees provided by the Company actually incurred was approximately RMB6,014,228,000, accounting for 25.32% of the owner's equity attributable to shareholders of the parent company as at 30 June 2014. 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 2014 Interim 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 the reporting period are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

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

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

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012-2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Subject to Long-term supply contracts signed between the two parties and specific purchase orders	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		No	Under normal progress

(XIII) UNDERTAKING

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

☒ Applicable ☐ N/A

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 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.

Material Matters

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 therefore, where such profit forecasts have been made and the reporting period falls within the profit forecast period**

☐ Applicable ☒ N/A

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

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

(XVI) THE COMPANY WAS NOT SUBJECT TO ANY RISK OF DELISTING AS A RESULT OF VIOLATIONS OF LAWS AND REGULATIONS DURING THE REPORTING PERIOD

(XVII) OTHER MATERIAL MATTERS

Save as aforesaid, no other material matters 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 matters that were material in the judgment of the Board of Directors of the Company occurred to the Company during the reporting period.

(XVIII) INDEX OF DOMESTIC INFORMATION DISCLOSURE OF THE COMPANY DURING THE REPORTING PERIOD

Date of domestic disclosure	Announcement
21 January 2014	Announcement of Resolutions of the Fourteenth Meeting of the Sixth Session of the Board of Directors Announcement of Resolutions of the Eleventh Meeting of the Sixth Session of the Supervisory Committee Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange Preliminary Results Announcement for the Year Ended 31 December 2013
11 February 2014	Announcement of Resolutions of the Fifteenth Meeting of the Sixth Session of the Board of Directors Announcement on Third-party Guarantee
15 February 2014	Announcement Performance of Undertakings by Shareholders of the Company, Connected Persons and the Listed Company
27 March 2014	Announcement of Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors Announcement of Resolutions of the Twelfth Meeting of the Sixth Session of the Supervisory Committee 2013 Annual Report Summary Announcement on the Application for Derivative Investment Limits for 2014 Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary Announcement on the Proposed Interest Rate Swap Transactions by a Wholly-owned Subsidiary Notice of the 2013 Annual General Meeting
11 April 2014	Preliminary Results Announcement for the First Quarter of 2014
18 April 2014	Announcement of Resolutions of the Seventeenth Meeting of the Sixth Session of the Board of Directors Announcement of Resolutions of the Thirteenth Meeting of the Sixth Session of the Supervisory Committee 2014 First Quarterly Report
9 May 2014	Announcement of External Investments and Connected Transaction Indicative Announcement on the Convening of the 2013 Annual General Meeting
30 May 2014	Announcement of Resolutions of the 2013 Annual General Meeting Announcement of Resolutions of the Eighteenth Meeting of the Sixth Session of the Board of Directors Announcement of Resolutions of the Fourteenth Meeting of the Sixth Session of the Supervisory Committee Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange
5 June 2014	Announcement of 2014 Interest Payment for the Corporate Bonds (Tranche 1) 2012
14 June 2014	Announcement of Completion of Changes in Industrial and Commercial Registration
24 June 2014	Announcement of Progress of External Investments

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

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: shares

	Beginning of the reporting period		Increase/decrease (+/-) resulting from changes in the reporting period					End of the reporting period	
	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	7,225,715	0.21%	—	—	—	(560,137)	(560,137)	6,665,578	0.19%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic share	—	—	—	—	—	—	—	—	—
Comprising: Domestic									
non-state-owned									
corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural									
person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate									
shares	—	—	—	—	—	—	—	—	—
Foreign natural									
person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	7,225,715	0.21%	—	—	—	(560,137)	(560,137)	6,665,578	0.19%
II. Shares not subject to lock-up	3,430,315,563	99.79%	—	—	—	560,137	560,137	3,430,875,700	99.81%
1. RMB ordinary shares	2,800,730,118	81.47%	—	—	—	560,137	560,137	2,801,290,255	81.49%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	629,585,445	18.32%	—	—	—	—	—	629,585,445	18.32%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	3,437,541,278	100.00%	—	—	—	—	—	3,437,541,278	100.00%

Note: 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.

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

Unit: shares

No.	Name of shareholders	Number of shares subject to lock-up as at 31 Dec 2013	Number of shares released from lock-up during the reporting period	Increase in the number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	973,103	—	—	973,103	Restricted senior management shares	Note 1
2	Chen Jie	595,936	37,499	—	558,437	Restricted senior management shares	Note 1
3	Yin Yimin	474,624	—	—	474,624	Restricted senior management shares	Note 1
4	Xu Huijun	420,709	—	—	420,709	Restricted senior management shares	Note 1
5	Fan Qingfeng	421,874	59,999	—	361,875	Restricted senior management shares	Note 1
6	Zhu Jinyun	361,844	—	—	361,844	Restricted senior management shares	Note 1
7	Wei Zaisheng	328,065	—	—	328,065	Restricted senior management shares	Note 1
8	Zeng Xuezhong	425,700	105,000	—	320,700	Restricted senior management shares	Note 1
9	Pang Shengqing	391,051	75,000	—	316,051	Restricted senior management shares	Note 1
10	Xie Daxiong	373,869	63,992	—	309,877	Restricted senior management shares	Note 1
11	Others	2,458,940	267,397	48,750	2,240,293	Restricted senior management shares	Note 1 and Note 2
Total		7,225,715	608,887	48,750	6,665,578	—	—

Note 1: In accordance with 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 were subjected to lock-up in accordance with relevant domestic regulations.

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

- 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
- 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”.
- 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.”
- 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.

- The Company had no employees' shares.

Changes in Shareholdings and Information of Shareholders

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

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

Total number of holders of ordinary shares 175,735 shareholders (of which 175,373 were holders of A shares and 362 were holders of H shares)

Total number of holders of preferential shares with reinstated voting rights (if any) N/A

Shareholdings of top ten shareholders or shareholders holding 5% or above shares						
Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held at the end of the reporting period (shares)	Increase/decrease resulting from changes during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Zhongxingxin	State-owned corporation	30.78%	1,058,191,944	—	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.28%	628,322,307	+14,735	—	Unknown
3. CITIC Trust Co., Ltd. — Wealth Management 06	Others	1.48%	50,994,000	-7,200,000	—	Unknown
4. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.09%	37,450,609	—	—	Unknown
5. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF)	Others	0.90%	31,030,216	-1,000,000	—	Unknown
6. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	0.79%	27,105,214	+7,143,430	—	Unknown
7. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	Others	0.75%	25,786,732	+1,090,347	—	Unknown
8. China Minsheng Bank Corp., Ltd. — Yinhua SZSE 100 Classified Fund	Others	0.61%	20,987,891	-1,277,619	—	Unknown
9. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002Shen	Others	0.59%	20,389,589	-9,333,401	—	Unknown
10. NSSF Portfolio #113	Others	0.57%	19,711,011	+2,999,911	—	Unknown

Shareholdings of top 10 holders of shares not subject to lock-up

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A share
2. HKSCC Nominees Limited	628,322,307	H share
3. CITIC Trust Co., Ltd. - Wealth Management 06	50,994,000	A share
4. Hunan Nantian (Group) Co., Ltd.	37,450,609	A share
5. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF)	31,030,216	A share
6. China Life Insurance (Group) Company — Traditional — General Insurance Products	27,105,214	A share
7. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L-CT001 Shen	25,786,732	A share
8. China Minsheng Bank Corp., Ltd. — Yinhua SZSE 100 Classified Fund	20,987,891	A share
9. China Life Insurance Company Limited -Dividend — Individual Dividend — 005L-FH002Shen	20,389,589	A share
10. NSSF Portfolio #113	19,711,011	A share

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 7th and 9th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. The fund manager of the 6th ranking shareholder, China Life Insurance (Group) Company, was the controlling shareholder of 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.

Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)

N/A

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

Note 2: Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.78% 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 share	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 shareholders of the Company

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

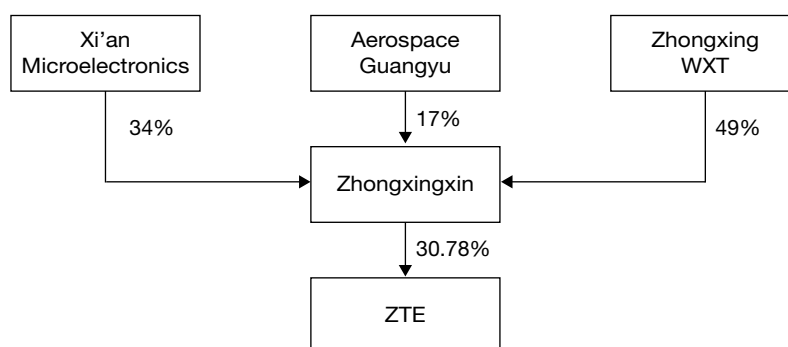
Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Organisation number:	19222451-8
Registered capital:	RMB100 million

Scope of business: Production of 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.

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

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. For details of these three shareholders, please refer to the section headed "Changes in Shareholdings and Information of Shareholders – (IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR" in the 2013 Annual Report of the Company.

The following diagram shows the shareholding and controlling relationships between the said corporate shareholders and the Company as at 30 June 2014:



4. The Company had no other corporate shareholder who was interested in more than 10% of its Shares
5. So far as is known to the Company, no shareholders of the Company and their concerted parties proposed or implemented plans to increase shareholdings during the reporting period.
6. Interests of substantial shareholders of the Company in shares and underlying shares

As at 30 June 2014, 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	Approximate shareholding as a percentage (%) of:	
			Total share capital	Relevant class of 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)
China Aerospace Science and Technology Corporation	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	64,254,669 H shares (L)	1.87(L)	10.20(L)
	Beneficial owner	25,605,569 H shares (S)	0.74(S)	4.06(S)
	Approved lending agent	34,421,288 H shares (P)	1.00(P)	5.46(P)
BlackRock, Inc.	Interest of controlled corporation	50,585,938 H shares (L)	1.47(L)	8.03(L)
	Interest of controlled corporation	1,230,000 H shares (S)	0.04(S)	0.20(S)
BNP Paribas Jersey Nominee Company Limited	Nominee for another person	44,302,800 H shares (L)	1.29(L)	7.03(L)
BNP Paribas Jersey Trust Corporation Limited	Trustee	44,302,800 H shares (L)	1.29(L)	7.03(L)
Cheah Capital Management Limited	Interest of controlled corporation	44,302,800 H shares (L)	1.29(L)	7.03(L)
Cheah Cheng Hye	Founder of a discretionary trust	44,302,800 H shares (L)	1.29(L)	7.03(L)
Cheah Company Limited	Interest of controlled corporation	44,302,800 H shares (L)	1.29(L)	7.03(L)
To Hau Yin	Interest of a substantial shareholder's child under 18 or spouse	44,302,800 H shares (L)	1.29(L)	7.03(L)
Value Partners Group Limited	Interest of controlled corporation	44,302,800 H shares (L)	1.29(L)	7.03(L)
Aranda Investments (Mauritius) Pte Ltd	Interest of controlled corporation	11,141,800 H shares (L)	1.16(L) ^{Note}	6.96(L) ^{Note}
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	1.12(L)	6.10(L)
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H shares (L)	0.88(L) ^{Note}	5.26(L) ^{Note}
Sun Life Financial, Inc.	Interest of controlled corporation	8,428,100 H shares (L)	0.88(L) ^{Note}	5.26(L) ^{Note}

Changes in Shareholdings and Information of Shareholders

(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 30 June 2014, 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 and redemption of securities

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

Directors, Supervisors and Senior Management

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

The effective shareholdings in the issued share capital of the Company held by the Directors, Supervisors and senior management of the Company at the end of the reporting period were as follows:

No.	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Whether remuneration is received from shareholder entities
Directors of the Company													
1	Hou Weigui	Chairman	Incumbent	Male	73	3/2013	3/2016	1,297,472	—	—	1,297,472	—	No
2	Zhang Jianheng	Vice Chairman	Incumbent	Male	53	3/2013	3/2016	—	—	—	—	—	No
3	Xie Weiliang	Vice Chairman	Incumbent	Male	58	3/2013	3/2016	32,760	—	—	32,760	—	Yes
4	Wang Zhanchen	Director	Incumbent	Male	62	3/2013	3/2016	—	—	—	—	—	No
5	Zhang Junchao	Director	Incumbent	Male	61	3/2013	3/2016	32,760	—	—	32,760	—	No
6	Dong Lianbo	Director	Incumbent	Male	57	3/2013	3/2016	32,760	—	—	32,760	—	Yes
7	Shi Lirong	Director and President	Incumbent	Male	50	3/2013	3/2016	410,511	—	—	410,511	—	No
8	Yin Yimin	Director	Incumbent	Male	51	3/2013	3/2016	632,833	—	—	632,833	—	No
9	He Shiyu	Director	Incumbent	Male	48	3/2013	3/2016	344,940	—	—	344,940	—	No
10	Qu Xiaohui	Independent Non-executive Director	Incumbent	Female	60	3/2013	7/2015	—	—	—	—	—	No
11	Wei Wei	Independent Non-executive Director	Incumbent	Male	49	3/2013	7/2015	—	—	—	—	—	No
12	Chen Naiwei	Independent Non-executive Director	Incumbent	Male	57	3/2013	7/2015	—	—	—	—	—	No
13	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	70	3/2013	3/2016	—	—	—	—	—	No
14	Richard Xike Zhang	Independent Non-executive Director	Incumbent	Male	44	6/2013	3/2016	—	—	—	—	—	No
Supervisors of the Company													
15	Xie Daxiong	Chairman of Supervisory Committee	Incumbent	Male	51	3/2013	3/2016	413,169	—	—	413,169	—	No
16	He Xuemei	Supervisor	Incumbent	Female	44	3/2013	3/2016	80,347	—	—	80,347	—	No
17	Zhou Huidong	Supervisor	Incumbent	Male	38	3/2013	3/2016	78,158	—	—	78,158	—	No
18	Xu Weiyan	Supervisor	Incumbent	Female	52	3/2013	3/2016	9,199	—	—	9,199	—	No
19	Chang Qing	Supervisor	Incumbent	Male	59	3/2013	3/2016	—	—	—	—	—	Yes
Senior management of the Company													
20	He Shiyu ^{Note 1}	Executive Vice President	Resigned	Male	48	4/2013	1/2014	Note 1					No
21	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	52	4/2013	3/2016	437,421	—	—	437,421	—	No
22	Tian Wenguo	Executive Vice President	Incumbent	Male	45	4/2013	3/2016	204,877	—	—	204,877	—	No
23	Qiu Weizhao	Executive Vice President	Incumbent	Male	51	4/2013	3/2016	385,414	—	—	385,414	—	No
24	Fan Qingfeng	Executive Vice President	Incumbent	Male	46	4/2013	3/2016	482,500	—	—	482,500	—	No
25	Zeng Xuezhong ^{Note 1}	Senior Vice President	Resigned	Male	41	4/2013	1/2014	427,600	—	—	427,600	—	No
		Executive Vice President	Incumbent			1/2014	3/2016						
26	Zhao Xianming ^{Note 1}	Senior Vice President	Resigned	Male	48	4/2013	1/2014	323,905	—	—	323,905	—	No
		Executive Vice President	Incumbent			1/2014	3/2016						
27	Chen Jie	Senior Vice President	Incumbent	Female	56	4/2013	3/2016	744,583	—	—	744,583	—	No
28	Pang Shengqing	Senior Vice President	Incumbent	Male	46	4/2013	3/2016	421,402	—	—	421,402	—	No
29	Xu Huijun	Senior Vice President	Incumbent	Male	41	4/2013	3/2016	560,945	—	—	560,945	—	No
30	Ye Weimin	Senior Vice President	Incumbent	Male	48	4/2013	3/2016	397,248	—	—	397,248	—	No
31	Zhu Jinyun	Senior Vice President	Incumbent	Male	42	4/2013	3/2016	482,460	—	—	482,460	—	No
32	Zhang Renjun	Senior Vice President	Incumbent	Male	45	4/2013	3/2016	—	—	—	—	—	No
33	Chen Jianzhou	Senior Vice President	Incumbent	Male	44	4/2013	3/2016	130,028	—	—	130,028	—	No
34	Cheng Lixin	Senior Vice President	Incumbent	Male	48	4/2013	3/2016	3,000	—	—	3,000	—	No
35	Xiong Hui ^{Note 1}	Senior Vice President	Incumbent	Male	45	1/2014	3/2016	—	—	—	—	—	No
36	Zhang Zhenhui ^{Note 1}	Senior Vice President	Incumbent	Male	41	1/2014	3/2016	65,000	—	—	65,000	—	No
37	Feng Jianxiong	Secretary to the Board of Directors	Incumbent	Male	40	4/2013	3/2016	275,000	—	—	275,000	—	No
—	Total	—	—	—	—	—	—	8,706,292	—	—	8,706,292	—	—

Directors, Supervisors and Senior Management

Note 1: At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was approved that the Company would: discontinue the employment of Mr. He Shiyong as Executive Vice President of the Company; appoint Mr. Zeng Xuezhong and Mr. Zhao Xianming each as Executive Vice President of the Company and remove each of them as Senior Vice President of the Company; and appoint Mr. Xiong Hui and Mr. Zhang Zhenhui each as Senior Vice President of the Company.

Note 2: None of the Company's Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

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

☐ Applicable ☒ N/A

There was no change to the share options held by the Directors and senior management of the Company during the reporting period. For details of the share options of the Company held by the Directors and senior management of the Company, please refer to the section headed "Material Matters — (VII) Information on the Share Option Incentive Scheme of the Company" in this report. Supervisors of the Company did not hold any share options of the Company.

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

Name	Name of shareholder	Position at the shareholder	Commencement of term of office	Conclusion of term of office	Whether remuneration is received from shareholder entities
Xie Weiliang Note 1	Zhongxingxin	Chairman	May 2013	May 2016	No
	CASIC Shenzhen (Group) Company Limited	Director and general manager	February 2003	January 2014	Yes
		Chairman and Secretary of CPC committee	January 2014	Incumbent	Yes
Dong Lianbo Note 2	Zhongxingxin	Director	May 2013	May 2016	No
	CASIC Shenzhen (Group) Company Limited	Director and deputy general manager	February 2003	January 2014	Yes
		Head of CASC inspection team I	January 2014	Incumbent	Yes
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

Note 1: Mr. Xie Weiliang's position at CASIC Shenzhen (Group) Company Limited has been changed from director and general manager to chairman and secretary of CPC committee with effect from January 2014.

Note 2: Mr. Dong Lianbo's position at CASIC Shenzhen (Group) Company Limited has been changed from director and deputy general manager to head of CASC inspection team I with effect from January 2014.

Note 3: Mr. Zhang Junchao ceased to be director of Zhongxingxin and legal representative of Xi'an Microelectronics as from May 2014 and January 2014, respectively.

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

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Hou Weigui	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
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial Company Limited	Deputy general manager	No
Shi Lirong	Held positions in 3 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Director	No
Yin Yimin ^{Note 1}	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive Director	No
	ZTE Capital	Chairman/general manager	Yes
	Zhonghe Chunsheng Fund	Executive manager	No
	Jiaxing Xinghe Capital Management Company Limited	Executive Director	No
He Shiyong ^{Note 2}	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
	Peking University HSBC Business School	Associate dean	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
	Skyworth Digital Holdings Limited	Independent non-executive director	Yes
Chen Naiwei	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
Tan Zhenhui ^{Note 4}	Shanghai Kinlita Chemical Co., Ltd.	Independent non-executive director	Yes
	Beijing Jiaotong University	Director of University Academic Committee/professor	Yes
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Xie Daxiong	Held positions in 6 subsidiaries including Tianjin Zhongxing Software Company Limited	Chairman/director	No
Zhou Huidong	Held positions in 12 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
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

Directors, Supervisors and Senior Management

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Wei Zaisheng	Held positions in 16 subsidiaries including ZTE Group Finance	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Capital Co., Ltd.	Supervisor	No
Tian Wenguo	Held positions in 10 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 5 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited	Director/Chairman	No
Zeng Xuezhong	Held positions in 7 subsidiaries including Shenzhen ZTE Mobile 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	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	Held positions in 3 subsidiaries including 深圳市中興通訊節能服務有限責任公司	Director/general manager/supervisor	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
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 7
Zhang Zhenhui	Anhui Wantong Postal and Telecom Company Limited	Chairman	No
Feng Jianxiong	Held positions in 3 subsidiaries including ZTE Capital	Director/supervisor	No

Note 1: Mr. Yin Yimin was appointed executive director of Jiaying Xinghe Capital Management Company Limited in May 2014.

Note 2: Mr. He Shiyong ceased to be chairman of Shenzhen ZTE Mobile Telecom Company Limited and chairman of ZTE (Hangzhou) Company Limited, as from April 2014 and May 2014, respectively.

Note 3: Mr. Wei Wei ceased to be independent non-executive director of Changyuan Group Company Limited as from April 2014, while being appointed independent non-executive director of Skyworth Digital Holdings Limited in March 2014.

Note 4: Mr. Tan Zhenhui ceased to be independent non-executive director of Jiangsu Tongding Optic-electronic Stock Co., Ltd as from June 2014.

Note 5: Mr. Wang Zhanchen ceased to be vice chairman of China Aerospace Times Electronics Co., Ltd. as from June 2014.

Note 6: Mr. Zhang Junchao ceased to be head of Shaanxi Management Division and deputy head of academy of China Academy of Aerospace Electronics Technology as from January 2014.

Note 7: Mr. Cheng Lixin received remuneration from ZTE (USA), Inc.

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

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

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

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

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

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

At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, 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 and the discontinuation of the employment of Mr. He Shiyu as Executive Vice President of the Company were approved. The term of office of the aforesaid senior management appointed as aforesaid shall commence on the date on which the appointment is considered and approved by the Board of Directors of the Company and shall end upon the conclusion of the terms of the Sixth Session of the Board of Directors of the Company (namely 29 March 2016).

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

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2014 are set out in the section of this chapter headed “(I) Changes in the Shareholdings of the Company’s Directors, Supervisors and Senior Management”.

Save as disclosed above, as at 30 June 2014, 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 as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2014, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

Consolidated Balance Sheet

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

	Note	30 June 2014 (unaudited)	31 December 2013 (audited)
	V		
Assets			
Current assets			
Cash	1	17,338,226	20,903,035
Financial assets dealt with at fair value through current profit or loss	2	366,578	217,454
Bills receivable	3	3,519,519	3,500,671
Trade receivables	4	21,739,723	21,393,257
Factored traded receivables	4	3,141,831	3,338,801
Other receivables	5	1,865,392	1,729,163
Prepayments	6	783,479	751,405
Inventories	7	18,751,630	12,434,352
Amount due from customers for contract works	8	10,380,469	12,137,144
Total current assets		77,886,847	76,405,282
Non-current assets			
Available-for-sale financial assets	9	1,513,650	1,630,271
Long-term receivables	10	356,739	366,762
Factored long-term receivables	4	2,066,672	2,311,525
Long-term equity investments	12	443,871	478,037
Investment properties	13	1,951,625	1,855,246
Fixed assets	14	7,278,620	7,449,476
Construction in progress	15	200,929	177,423
Intangible assets	16	1,313,543	1,236,755
Deferred development costs		3,175,868	2,932,148
Deferred tax assets	17	1,382,079	1,353,033
Long-term deferred assets		65,677	70,942
Other non-current assets	32	4,216,758	3,812,597
Total non-current assets		23,966,031	23,674,215
TOTAL ASSETS		101,852,878	100,079,497

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)

Currency: RMB'000

(English translation for reference only)

	Note V	30 June 2014 (unaudited)	31 December 2013 (audited)
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	19	10,319,113	12,589,032
Financial liabilities dealt with at fair value through current profit or loss	20	190,307	67,779
Bank advances on factored trade receivables	4	3,176,285	3,377,374
Bills payable	21	9,894,477	8,498,021
Trade payables	22	19,719,673	16,492,534
Amount due to customers for contract works	8	4,896,879	3,682,564
Advances from customers	23	3,047,684	2,776,366
Salary and welfare payables	24	2,851,905	2,462,006
Taxes payable	25	(2,004,765)	(1,251,859)
Dividends payable	26	13,641	34,963
Other payables	27	6,898,592	8,478,144
Deferred income		297,609	408,845
Provisions	28	602,909	601,111
Long-term liabilities due within one year	29	8,808,915	2,753,925
Total current liabilities		68,713,224	60,970,805
Non-current liabilities			
Long-term loans	30	4,667,327	5,385,673
Bank advances on factored long-term receivables	4	2,066,672	2,311,525
Bonds payable	31	—	6,119,590
Long-term salary and welfare payables		95,108	95,806
Deferred tax liabilities	17	160,489	139,900
Other non-current liabilities	32	1,323,534	1,430,509
Total non-current liabilities		8,313,130	15,483,003
Total liabilities		77,026,354	76,453,808
Shareholders' equity			
Share capital	33	3,437,541	3,437,541
Capital reserves	34	9,447,184	9,491,663
Surplus reserves	35	1,613,195	1,613,195
Retained profits	36	10,061,994	8,933,788
Proposed final dividend		103,126	103,126
Foreign currency translation differences		(913,917)	(1,046,665)
Total equity attributable to equity holders of the parent		23,749,123	22,532,648
Non-controlling interests		1,077,401	1,093,041
Total shareholders' equity		24,826,524	23,625,689
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		101,852,878	100,079,497

Consolidated Income Statement

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

	Note V	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited) (Restated)
Operating revenue	37	37,697,309	37,504,784
Less: Operating costs	37	25,509,830	27,234,174
Taxes and surcharges	39	672,289	362,636
Selling and distribution costs		4,741,335	4,667,509
Administrative expenses		1,072,251	1,060,788
Research and development costs		4,126,546	3,627,555
Finance expenses	42	507,970	1,370,126
Impairment losses	43	1,141,995	926,688
Add: Gains/(Losses) from changes in fair values	40	(58,769)	162,888
Investment income/(loss)	41	(76,373)	809,131
Including: Share of profits and losses of associates and joint ventures		(40,448)	(29,644)
Operating profit/(loss)		(210,049)	(772,673)
Add: Non-operating income	44	1,912,664	1,556,652
Less: Non-operating expenses	44	58,629	42,198
Including: Loss on disposal of non-current assets		16,179	7,171
Total profit		1,643,986	741,781
Less: Income tax	45	472,675	412,537
Net profit/(loss)		1,171,311	329,244
Net profit attributable to owners of the parent		1,128,206	310,012
Non-controlling interests		43,105	19,232
Earnings per share	46		
Basic earnings per share		RMB0.33	RMB0.09
Diluted earnings per share		RMB0.33	RMB0.09
Other comprehensive income	47		
Other comprehensive income to be reclassified to profit or loss in subsequent accounting periods subject to certain conditions			
Profit or loss arising from changes in fair value of available- for-sale financial assets		(132,607)	60,487
Effective portion of gain or loss arising from cash flow hedging instruments		848	7,513
Exchange differences on translation of foreign operations		130,301	(167,838)
Other comprehensive income, net of income tax effect on respective items		(1,458)	(99,838)
Total comprehensive income		1,169,853	229,406
Including:			
Total comprehensive income attributable to owners of the parent		1,127,355	209,879
Total comprehensive income attributable to non-controlling interests		42,498	19,527

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)

Currency: RMB'000

(English translation for reference only)

	Six months ended 30 June 2014 (unaudited)								
	Equity attributable to equity holders of the parent							Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total		
I. Current period's opening 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
II. Changes during the period									
(1) Net profit/(loss)	—	—	—	1,128,206	—	—	1,128,206	43,105	1,171,311
(2) Other comprehensive income	—	(133,599)	—	—	—	132,748	(851)	(607)	(1,458)
Total comprehensive income	—	(133,599)	—	1,128,206	—	132,748	1,127,355	42,498	1,169,853
(3) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	89,120	—	—	—	—	89,120	—	89,120
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(48,990)	(48,990)
4. Acquisition of interests from minority shareholders	—	—	—	—	—	—	—	—	—
(4) Profit appropriation									
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	(9,148)	(9,148)
3. Proposed final dividends	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—
III. Closing balance at the end of the period	3,437,541	9,447,184	1,613,195	10,061,994	103,126	(913,917)	23,749,123	1,077,401	24,826,524

Consolidated Statement of Changes in Equity (continued)

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

	Six months ended 30 June 2013 (unaudited) (restated)									
	Equity attributable to equity holders of the parent							Non-controlling interests	Total shareholders' equity	
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total			
I. Current period'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 period										
(1) Net profit/(loss)	—	—	—	310,012	—	—	310,012	19,232	329,244	
(2) Other comprehensive income	—	69,369	—	—	—	(169,502)	(100,133)	295	(99,838)	
Total comprehensive income	—	69,369	—	310,012	—	(169,502)	209,879	19,527	229,406	
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	—	—	—	—	—	—	19,600	19,600	
2. Capital reduction by shareholders	—	—	—	—	—	—	—	(48,990)	(48,990)	
3. Disposal of subsidiaries	—	—	—	—	—	—	—	(63,221)	(63,221)	
4. Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—	
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	
4. Others	—	—	—	—	—	—	—	—	—	
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—	
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—	
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—	
III. Closing balance at the end of the period	3,440,078	9,376,121	1,587,430	8,015,034	—	(752,201)	21,666,462	1,063,172	22,729,634	

Consolidated Cash Flow Statement

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

	Note V	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		41,692,381	37,821,989
Refunds of taxes		3,286,212	3,917,366
Cash received relating to other operating activities	48	823,979	497,374
Sub-total of cash inflows from operating activities		45,802,572	42,236,729
Cash paid for goods and services		32,389,429	34,519,109
Cash paid to and on behalf of employees		5,540,915	5,723,526
Cash paid for all types of taxes		3,410,470	2,933,682
Cash paid relating to other operating activities	48	3,746,449	3,401,496
Sub-total of cash outflows from operating activities		45,087,263	46,577,813
Net cash flows from operating activities	49	715,309	(4,341,084)
II. Cash flows from investing activities			
Cash received from sale of investments		983,731	423,898
Cash received from return on investments		54,465	64,971
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		15,314	4,278
Net cash received from disposal of subsidiaries		—	1,006,367
Sub-total of cash inflows from investing activities		1,053,510	1,499,514
Cash paid to acquisition of fixed assets, intangible assets and other long-term assets		951,924	1,149,184
Cash paid for acquisition of investments		888,435	1,129,226
Sub-total of cash outflows from investing activities		1,840,359	2,278,410
Net cash flows from investing activities		(786,849)	(778,896)
III. Cash flows from financing activities			
Cash received from capital injections		—	15,000
Including: Capital injection into subsidiaries by non-controlling shareholders		—	15,000
Cash received from borrowings		21,894,336	12,805,703
Sub-total of cash inflows from financing activities		21,894,336	12,820,703
Cash repayments of borrowings		25,171,010	13,527,730
Cash payments for distribution of dividends, profits and for interest expenses		784,744	960,454
Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders		30,470	—
Sub-total of cash outflows from financing activities		25,955,754	14,488,184
Net cash flows from financing activities		(4,061,418)	(1,667,481)
IV. Effect of changes in foreign exchange rate on cash		65,864	43,517
V. Net increase in cash and cash equivalents		(4,067,094)	(6,743,944)
Add: cash and cash equivalents at the beginning of the year		20,118,274	22,659,635
VI. Net balance of cash and cash equivalents at the end of the period	49	16,051,180	15,915,691

Balance Sheet

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

	Note XI	30 June 2014 (unaudited)	31 December 2013 (audited)
Assets			
Current assets			
Cash		7,387,399	12,163,330
Financial assets dealt with at fair value through current profit or loss		15,317	69,300
Bills receivable		3,082,993	2,851,182
Trade receivables	1	32,083,354	34,030,487
Factored trade receivables		1,586,745	2,084,134
Prepayments		25,999	29,328
Dividends receivable		2,019,628	1,970,264
Other receivables	2	7,393,488	10,454,633
Inventories		10,241,611	7,056,518
Amount due from customers for contract works		5,778,558	7,029,635
Total current assets		69,615,092	77,738,811
Non-current assets			
Available-for-sale financial assets	3	373,555	373,555
Long-term receivables	4	4,567,867	4,517,856
Factored long-term trade receivables		1,573,264	1,968,052
Long-term equity investments	5	6,368,042	6,430,526
Investment properties		1,576,396	1,496,338
Fixed assets		4,590,814	4,751,559
Construction in progress		14,656	14,393
Intangible assets		453,866	451,947
Deferred development costs		767,441	665,650
Deferred tax assets		772,038	762,009
Long-term deferred assets		51,106	50,778
Other non-current assets		4,166,758	3,596,641
Total non-current assets		25,275,803	25,079,304
TOTAL ASSETS		94,890,895	102,818,115

Balance Sheet (continued)

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

	30 June 2014 (unaudited)	31 December 2013 (audited)
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	6,043,405	8,375,865
Financial liabilities dealt with at fair value through current profit or loss	57,643	12,575
Bank advances on factored trade receivables	1,621,199	2,122,707
Bills payable	11,119,417	10,250,993
Trade payables	27,617,382	34,200,975
Amount due to customers for contract works	3,163,856	2,496,029
Advances from customers	3,191,254	2,896,512
Salary and welfare payables	835,749	688,982
Taxes payables	(1,993,866)	(1,286,296)
Dividends payable	152	152
Other payables	18,178,524	17,178,123
Deferred income	50,192	80,401
Provisions	352,468	349,291
Long-term loans due within one year	5,999,387	—
Total current liabilities	76,236,762	77,366,309
Non-current liabilities		
Long-term loans	1,760,000	1,780,000
Bank advances on factored long-term trade receivables	1,573,264	1,968,052
Bonds payable	—	6,119,590
Long-term salary and welfare payables	95,108	95,806
Deferred tax liabilities	138,400	138,400
Other non-current liabilities	1,320,169	1,430,509
Total non-current liabilities	4,886,941	11,532,357
Total liabilities	81,123,703	88,898,666
Shareholders' equity		
Share capital	3,437,541	3,437,541
Capital reserves	9,405,788	9,316,668
Surplus reserves	951,439	951,439
Retained profits/(losses not made up for)	(113,374)	128,756
Proposed final dividend	103,126	103,126
Foreign currency translation differences	(17,328)	(18,081)
Total shareholders' equity	13,767,192	13,919,449
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	94,890,895	102,818,115

Income Statement

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

	Note XI	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
Operating revenue	6	34,822,306	33,263,826
Less: Operating costs	6	30,353,179	29,822,828
Taxes and surcharges		383,730	231,938
Selling expenses		3,036,239	2,842,410
Administrative expenses		618,287	660,204
Research and development costs		1,109,489	911,808
Finance expenses		417,058	970,492
Impairment losses		943,466	672,444
Add: Gains/(Losses) from changes in fair values		(37,898)	90,033
Investment income	7	1,472,184	1,749,032
Including: Share of profits and losses of associates and joint ventures		(34,282)	(25,908)
Operating profit/(loss)		(604,856)	(1,009,233)
Add: Non-operating income		340,246	332,354
Less: Non-operating expenses		21,781	35,142
Including: Losses on disposal of non-current assets		9,369	3,424
Total profit/(loss)		(286,391)	(712,021)
Less: Income tax		(44,261)	7,643
Net profit/(loss)		(242,130)	(719,664)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent accounting periods subject to certain conditions			
Exchange differences on translation of foreign operations		753	(291)
		753	(291)
Other comprehensive income, net of income tax effect on respective items		753	(291)
Total comprehensive income		(241,377)	(719,955)

Statement of Changes in Equity

(Prepared under PRC ASBEs)

Currency: RMB'000

(English translation for reference only)

	Six months ended 30 June 2014 (unaudited)						
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	3,437,541	9,316,668	951,439	128,756	103,126	(18,081)	13,919,449
II. Changes during the period							
(1) Net profit/(loss)	—	—	—	(242,130)	—	—	(242,130)
(2) Other comprehensive income	—	—	—	—	—	753	753
Total comprehensive income	—	—	—	(242,130)	—	753	(241,377)
(3) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	89,120	—	—	—	—	89,120
3. Others	—	—	—	—	—	—	—
(4) Profit appropriation							
1. Appropriation to surplus reserves	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—
3. Proposed final dividends	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—
III. Closing balance at the end of the period	3,437,541	9,405,788	951,439	(113,374)	103,126	(17,328)	13,767,192

	Six months ended 30 June 2013 (unaudited) (restated)						
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	3,440,078	9,286,772	925,674	(118,276)	—	(17,138)	13,517,110
II. Changes during the period							
(1) Net profit/(loss)	—	—	—	(719,664)	—	—	(719,664)
(2) Other comprehensive income	—	—	—	—	—	(291)	(291)
Total comprehensive income	—	—	—	(719,664)	—	(291)	(719,955)
(3) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	—	—	—	—	—	—
3. Others	—	—	—	—	—	—	—
(4) Profit appropriation							
1. Appropriation to surplus reserves	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—
3. Proposed final dividends	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity							
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—
(6) Others	—	—	—	—	—	—	—
III. Closing balance at the end of the period	3,440,078	9,286,772	925,674	(837,940)	—	(17,429)	12,797,155

Cash Flow Statement

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

	Note XI	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		36,099,764	32,379,742
Refunds of taxes		1,885,621	2,796,613
Cash received relating to other operating activities		598,013	384,923
Sub-total of cash inflows		38,583,398	35,561,278
Cash paid for goods and services		34,183,700	35,638,529
Cash paid to and on behalf of employees		1,899,459	2,226,755
Cash paid for all types of taxes		416,839	553,086
Cash paid relating to other operating activities		2,737,826	2,795,716
Sub-total of cash outflows		39,237,824	41,214,086
Net cash flows from operating activities	8	(654,426)	(5,652,808)
II. Cash flows from investing activities			
Cash received from sale of investments		21,300	21,300
Cash received from return on investments		38,079	46,392
Cash received from disposal of fixed assets, intangible assets and other long-term assets, net		9,313	3,811
Cash received from disposal of subsidiaries		1,343	1,037,401
Sub-total of cash inflows		70,035	1,108,904
Cash paid to acquisition of fixed assets, intangible assets and other long term assets		326,771	470,955
Cash paid for acquisition of investments		1,292	207,320
Sub-total of cash outflows		328,063	678,275
Net cash flows from investing activities		(258,028)	430,629
III. Cash flows from financing activities			
Cash received from borrowings		6,006,450	9,339,536
Sub-total of cash inflows		6,006,450	9,339,536
Cash repayments of borrowings		9,153,276	9,502,819
Cash payments for distribution of dividends, profits and interest expenses		625,993	742,920
Sub-total of cash outflows		9,779,269	10,245,739
Net cash flows from financing activities		(3,772,819)	(906,203)
IV. Effect of changes in foreign exchange rate on cash		71,545	(202,457)
V. Net increase in cash and cash equivalents		(4,613,728)	(6,330,839)
Add: cash and cash equivalents at the beginning of the year		11,756,439	15,276,437
VI. Net balance of cash and cash equivalents at the end of the period		7,142,711	8,945,598

Notes to Financial Statements

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

I. CORPORATE BACKGROUND

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

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

On 11 November 1997, the Company was registered and established upon approval by Guangdong Shenzhen Industrial and Commercial Administrative Bureau with registration no. of 440301103852869 (revised on 23 February 2009) 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.

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

Notes to Financial Statements

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

I. CORPORATE BACKGROUND (CONTINUED)

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

I. CORPORATE BACKGROUND (CONTINUED)

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

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

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

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

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

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 30 June 2014, 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.33 for details.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 20 August 2014.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

These financial statements have been prepared in accordance with the “Enterprise Accounting Standards — Basic Standards” 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. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2014 and the results of their operations and their cash flows for the six months ended 30 June 2014.

3. Financial year

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

4. Reporting currency

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

The Group’s subsidiaries, joint ventures 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Business combination

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

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements for the six months period ended 30 June 2014. 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.

7. Cash and cash equivalents

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation

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

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

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

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments

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. Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial 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 dealt with at fair value through current profit or loss

Financial liabilities dealt with at fair value through current profit or loss comprise derivative financial liabilities and those designated at fair value through profit or loss at inception.

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

Other financial liabilities

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

Financial guarantee contracts

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

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.

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.

Financial assets carried at amortised cost

If an impairment loss has 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Available-for-sale financial assets

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

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Financial 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 — Long term equity investments” which have no quotation in an active market and whose fair value cannot be reliably measured, their impairment is also calculated in accordance with the aforementioned principle.

Derecognition of financial assets

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

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

10. Accounts Receivable

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

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

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Accounts Receivable (continued)

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

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

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

11. Inventories

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

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

Inventories are valued using the perpetual inventories system.

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

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments

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

Long-term equity investments were recorded at initial investment cost on acquisition. The initial investment cost of long-term equity investments derived from business combination through the merger of companies under the common control is measured as the share of the carrying value of the owner's equity of the acquiree. The initial investment cost of long-term equity investments derived from business combination through the merger of companies not under the common control is measured at the acquisition costs (The initial investment cost of the merger of companies not under the common control through multiple transactions in different stages is measured at the sum of the carrying value of equity investments in the acquiree held prior to the date of acquisition and the cost of additional investment on the date of acquisition). Acquisition costs represent the sum of the fair values of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer; 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 long-term 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 long term investments is considered in accordance with relevant asset impairment policies.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments (continued)

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

Under the equity method, after the long-term equity investments are acquired, investment 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 inter-transactions 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, joint ventures and associates, please refer to Note II.25. For details of impairment test methods and impairment provision methods for other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II.9.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Investment properties

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

Investment properties of the Group are 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.

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

14. Fixed Assets

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

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

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

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. 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.25.

15. Construction in progress

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

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

For details of impairment test methods and impairment provision methods for construction in progress, please refer to Note II.25.

16. Borrowing costs

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

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

Capitalization of borrowing costs begins where:

- (1) Capital expenditure has already happened;
- (2) Borrowing expenses has already incurred;
- (3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. 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.

17. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2–5 years
Technology know-how	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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. 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.25.

18. Provisions

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

- (1) the obligation is a present obligation of the Group;
- (2) the obligation would probably result in an outflow of economic resources from the Group;
- (3) the obligation could be reliably measured.

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

Notes to Financial Statements

(Prepared under PRC ASBEs)

Currency: RMB'000

(English translation for reference only)

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. 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 granted, 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. 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.

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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

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.

21. 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.

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.

22. 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Income tax (continued)

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.

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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Leases

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

As lessee of operating leases

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

As lesser of operating leases

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

24. 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. 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.

28. Profit distribution

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates

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

Judgements

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

Revenue Recognition

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

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

- 1) whether the delivered item has value to the customer on a stand-alone basis; and
- 2) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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

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

The Group's adoption of appropriate revenue recognition policy for a deliverable involves significant judgement. For instance, the Group has to determine whether post-contract support services is more than incidental to hardware, so as to decide 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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

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

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note II. 20 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.

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

Impairment of fixed assets, construction in progress and intangible assets

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

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

Impairment of financial assets

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

Notes to Financial Statements

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

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

Provision for inventory impairment

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

Provision for warranty

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

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 30 June 2014 was RMB1,951,625,000 (31 December 2013: RMB1,855,246,000).

Notes to Financial Statements

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

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 national tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax. |
| City maintenance and construction tax | — In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group. |
| Education surcharge | — In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group. |
| Individual income tax | — In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates. |
| Overseas tax | — Overseas taxes were payable in accordance with tax laws of various countries and regions. |
| Enterprise income tax | — In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income |

2. Tax concession and approval documents

The Company was subject to an enterprise income tax rate of 15% for the years from 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New 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 for the years from 2013 to 2014.

Nanjing Zhongxingxin Software Company Limited, a software enterprise newly established 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 fifth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

Notes to Financial Statements

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

III TAXATION (CONTINUED)

2. Tax concession and approval documents (continued)

ZTE ICT Company Limited was subject to an enterprise income tax rate of 15% for the years 2013-2015 as a national-grade hi-tech enterprise.

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 ZTE Mobile Telecom Co., Ltd 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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

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 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.

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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

ZTEsoft Technology 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.

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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise entitled to preferential policies under the West China Development Programme.

深圳市中興系統集成技術有限公司, a newly software enterprise established in 2013, is 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 (2012) No. 27. The current year is its first profitable year exempted from tax.

Notes to Financial Statements

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

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	Legal Representative	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at the end of the period	Balance of other items effectively representing net investment	Percentage of Shareholding (%)		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	HKD995 million	General services	Nil	HKD995 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	—
ZTE soft Technology Company Limited	Nan jing	Chen Jie	Manufacturing	RMB300 million	Systems project outsourcing	74537900-0	RMB240,297 million	—	80.1%	—	80.1%	Yes	304,031
Shenzhen ZTE Mobile Telecom Co., Ltd	Shenzhen	He Shiyong	Telecommunications and related equipment manufacturing	RMB79.166 million	Production and sale of telecommunication products	73205874-2	RMB71,249 million	—	90%	—	90%	Yes	129,473
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication services	RMB10 million	Production and sale of telecommunication products	76223980-0	RMB9 million	—	90%	—	90%	Yes	18,704
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 Shiyong	Telecommunications and 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 sale of corporate management hard/software products	68537795-0	RMB54 million	—	90%	—	90%	Yes	61,044

Notes to Financial Statements

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

IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (CONTINUED)

2. Changes in the scope of consolidation

New tier-two subsidiaries established during the period included 河南中興網信科技有限公司 and ZTE HK CORPORATION DOMINICAN REPUBLIC, SRL and acquired tier-four subsidiary ZTE Operations GmbH.

Anhui Wantong Posts and Telecommunication Company Limited, a holding subsidiary of the Company, disposed of its 100% equity interests in Anhui Yalong Communication Technology Company Limited. The date of equity interest disposal was 10 April 2014 and Anhui Yalong Communication Technology Company Limited was deconsolidated from the Group as from April 2014.

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

	Average rate		Rate at the end of the period	
	Six months ended 30 June 2014	Six months ended 30 June 2013	30 June 2014	31 December 2013
USD	6.1567	6.2321	6.2165	6.0969
EUR	8.4497	8.1856	8.4804	8.4189
HKD	0.7936	0.8037	0.8010	0.7862
GBP	10.3200	9.7912	10.5844	10.0556
INR	0.1011	0.1093	0.1036	0.0987
BRL	2.7127	2.9299	2.8293	2.5962
PKR	0.0605	0.0637	0.0630	0.0580
IDR	0.0005	0.0007	0.0005	0.0005
SAR	1.6418	1.6619	1.6577	1.6258
DZD	0.0784	0.0791	0.0783	0.0785
JPY	0.0596	0.0678	0.0613	0.0578
RUB	0.1845	0.1969	0.1838	0.1852
PLN	2.0320	1.9529	2.0392	2.0248

Notes to Financial Statements

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

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

1. Cash

		30 June 2014			31 December 2013		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	RMB	251	1.0000	251	2,030	1.0000	2,030
	USD	2,832	6.2165	17,605	2,812	6.0969	17,144
	SAR	28	1.6577	47	84	1.6258	136
	DZD	8,059	0.0783	631	4,510	0.0785	354
	INR	405	0.1036	42	486	0.0987	48
	THB	486	0.1914	93	501	0.1858	93
	PLN	321	2.0392	654	783	2.0248	1,586
	KZT	9,764	0.0339	331	14,375	0.0400	575
	EGP	58	0.8678	50	46	0.8820	41
	Others			7,686			2,753
Sub-total				27,390			24,760

		30 June 2014			31 December 2013		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	7,273,599	1.0000	7,273,599	9,355,809	1.0000	9,355,809
	USD	692,356	6.2165	4,304,031	722,971	6.0969	4,407,879
	HKD	81,004	0.8010	64,884	230,094	0.7862	180,900
	BRL	20,157	2.8293	57,029	58,772	2.5962	152,583
	PKR	3,143,635	0.0630	198,049	1,613,948	0.0580	93,609
	EGP	124,891	0.8678	108,380	90,680	0.8820	79,980
	IDR	173,438,000	0.0005	86,719	99,816,000	0.0005	49,908
	EUR	184,886	8.4804	1,567,911	246,778	8.4189	2,077,603
	DZD	1,066,782	0.0783	83,529	708,841	0.0785	55,644
	MYR	35,740	1.9363	69,204	18,365	1.8470	33,921
	ETB	139,196	0.3183	44,306	191,776	0.3209	61,541
	CAD	12,215	5.7356	70,062	70,698	5.7259	404,812
	GBP	3,061	10.5844	32,396	5,038	10.0556	50,662
	THB	1,040,423	0.1914	199,137	3,005,651	0.1858	558,450
	RUB	342,443	0.1838	62,941	597,306	0.1852	110,621
	JPY	2,999,869	0.0613	183,892	6,717,336	0.0578	388,262
	VEF	278,672	0.9867	274,966	112,263	0.9691	108,794
	COP	13,397,273	0.0033	44,211	48,595,000	0.0032	155,504
	NPR	2,664,374	0.0647	172,385	2,305,040	0.0623	143,604
	CLP	1,617,345	0.0113	18,276	743,362	0.0116	8,623
	Others			1,354,578			1,690,925
Sub-total				16,270,485			20,169,634

Notes to Financial Statements

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

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

1. Cash (continued)

		30 June 2014			31 December 2013		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	643,981	1.0000	643,981	349,185	1.0000	349,185
	USD	41,292	6.2165	256,689	55,888	6.0969	340,744
	Others			139,681			18,712
	Sub-total			1,040,351			708,641
	Total			17,338,226			20,903,035

As at 30 June 2014, the Group's cash subject to ownership restriction amounted to RMB1,040,351,000 (31 December 2013: RMB708,641,000), including acceptance bill deposits of RMB199,689,000 (31 December 2013: RMB37,237,000), letter of credit deposits of RMB99,996,000 (31 December 2013: RMB11,209,000), deposit for guarantee letter of RMB82,772,000 (31 December 2013: RMB116,791,000), deposit reserve of RMB415,289,000 (31 December 2013: RMB288,821,000) and risk compensation fund to be released within one year of RMB242,605,000 (31 December 2013: RMB254,583,000).

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 prorata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2014, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB4,244,916,000 (31 December 2013: RMB3,651,480,000). Risk compensation fund to be released within one year amounting to RMB242,605,000 (31 December 2013: RMB254,583,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB4,002,311,000 (31 December 2013: RMB3,396,897,000) was accounted for as other non-current assets.

As at 30 June 2014, the Group's overseas currency deposits amounted to RMB7,402,930,000 (31 December 2013: RMB6,722,472,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months depending on the Group's cash needs and earn interest income based on corresponding time deposits interest rate. Time deposit of over 3 months amounting to RMB246,695,000 (31 December 2013: RMB76,120,000) were not included in cash and cash equivalents.

Notes to Financial Statements

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

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

2. Financial assets dealt with at fair value through current profit or loss

	30 June 2014	31 December 2013
Financial assets dealt with at fair value through current profit or loss	286,181	—
Derivative financial assets	80,397	217,454
	366,578	217,454

3. Bills receivable

	30 June 2014	31 December 2013
Commercial acceptance bills	2,470,868	1,690,895
Bank acceptance bills	1,048,651	1,809,776
	3,519,519	3,500,671

As at 30 June 2014, there was no bill which had been reclassified as trade receivables as a result of the issuers' default (31 December 2013: Nil).

As at 30 June 2014, the balance of bills receivable comprised an amount of RMB66,146,000 (31 December 2013: RMB85,042,000) owed from shareholders or related parties holding 5% or more in the voting shares of the Company. Please refer to Note VI. "Relationships and transactions with related parties" for details of its breakdown.

As at 30 June 2014, there were no bills endorsed to other parties but not yet due (31 December 2013: Nil).

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that substantially all risks and rewards relating to bills receivable with a carrying amount of RMB508,991,000 (31 December 2013: RMB491,634,000) had been transferred and therefore the conditions for derecognising financial assets had been fulfilled. Accordingly, the relevant bills receivable were derecognised in full at their carrying value on the date of discounting. The maximum exposure to loss from the Group's continuing involvement in the endorsed bills and the undiscounted cash flows to repurchase these bills equal to their carrying amounts. The Group is of the view that the fair values of the Group's continuing involvement in the bills receivable are not significant. During the Relevant Periods, the Group did not recognize any gain or loss in respect of derecognised bills receivable on the date of transfer. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. As at 30 June 2014, no risks and rewards relating to bills receivable were transferred upon discounting and therefore the conditions for derecognising financial assets were not fulfilled (31 December 2013: RMB102,000,000).

As at 30 June 2014, no bank acceptances were pledged by the Group as security for short term loans (31 December 2013: Nil).

Notes to Financial Statements

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

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

4. Trade receivables

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

	30 June 2014			31 December 2013		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	8,132,888	1.0000	8,132,888	7,084,955	1.0000	7,084,955
USD	1,114,229	6.2165	6,926,605	1,246,533	6.0969	7,599,987
EUR	260,711	8.4804	2,210,934	221,689	8.4189	1,866,381
BRL	71,430	2.8293	202,097	77,856	2.5962	202,130
THB	442,821	0.1914	84,756	3,321,066	0.1858	617,054
INR	20,013,050	0.1036	2,073,352	16,558,956	0.0987	1,634,369
Others			2,109,091			2,388,381
			21,739,723			21,393,257

Aging analysis of trade receivables was as follows:

	30 June 2014	31 December 2013
Within 1 year	20,164,618	19,024,398
1 to 2 years	3,172,720	3,574,181
2 to 3 years	1,007,690	712,489
Over 3 years	1,997,650	1,833,407
	26,342,678	25,144,475
Less: bad debt provision for trade receivables	4,602,955	3,751,218
	21,739,723	21,393,257

Notes to Financial Statements

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

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

4. Trade receivables (continued)

Please refer to Note V. 18 for details of movements in bad debt provision for trade receivables for the period.

	30 June 2014				31 December 2013			
	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	517,145	2	517,145	100	507,337	2	507,337	100
For which bad debt provision has been collectively made								
0-6 months	16,374,246	62	—	—	16,094,642	63	—	—
7-12 months	3,790,372	14	162,679	4	2,929,756	12	234,541	8
13-18 months	1,624,438	6	544,090	33	2,684,587	11	621,248	23
19-24 months	1,547,308	6	1,075,841	70	886,725	4	542,964	61
2-3 years	994,370	4	808,401	81	680,822	3	484,522	71
Over 3 years	1,494,799	6	1,494,799	100	1,360,606	5	1,360,606	100
	25,825,533	98	4,085,810	16	24,637,138	98	3,243,881	13
	26,342,678	100	4,602,955	17	25,144,475	100	3,751,218	15

As at 30 June 2014, 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	173,673	173,673	100%	Debtor running into serious financial difficulties
Overseas carriers 2	163,416	163,416	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,947	77,947	100%	Debtor running into serious financial difficulties
Others	102,109	102,109	100%	Debtor running into serious financial difficulties
	517,145	517,145		

For the first half of 2014, no recovery of individually significant trade receivables for which individual provision for bad debts had been made and there was no write-back or write-off (2013: Nil).

Notes to Financial Statements

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

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

4. Trade receivables (continued)

Top 5 accounts of trade receivables as at 30 June 2014 were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	3,868,436	14.69%
Customer 2	2,687,618	10.20%
Customer 3	2,022,959	7.68%
Customer 4	373,253	1.42%
Customer 5	348,208	1.32%
Total	9,300,474	35.31%

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

As at 30 June 2014, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB412,041,000 (31 December 2013: RMB102,452,000), accounting for 1.56% (31 December 2013: 0.41%) of the total amount of trade receivables. Please refer to Note VI. "Relationships and transactions with related parties" for details. No bad debt provision was being made in respect of the aforesaid due from shareholders or related parties holding 5% or more in the voting shares.

As at 30 June 2014, trade receivables of the Group with a book value of RMB750,000,000 (31 December 2013: RMB750,000,000) were subject to ownership restriction as they were pledged as security for loans.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2014, trade receivables that had been transferred but not settled by the debtors amounted to RMB2,719,529,000 (31 December 2013: RMB2,790,279,000).

Notes to Financial Statements

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

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

4. Trade receivables (continued)

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognized to the extent of trade receivables transferred under continuous involvement. As at 30 June 2014, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB11,725,487,000 (31 December 2013: RMB13,222,149,000). 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	2,488,974
Carrying value of liabilities under continuous involvement	2,523,428

Factored trade receivables that did not qualify for derecognition and factored trade receivables recognized according to the extent of continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 30 June 2014, the amount of factored trade receivables was RMB5,208,503,000 (31 December 2013: RMB5,650,326,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2014, the amount of bank advances on factored trade receivables was RMB5,242,957,000 (31 December 2013: RMB5,688,899,000).

5. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2014	31 December 2013
Within 1 year	1,432,267	1,420,081
1 to 2 years	230,539	199,854
2 to 3 years	108,550	61,510
Over 3 years	94,036	47,718
	1,865,392	1,729,163
Less: bad debt provision for other receivables	—	—
	1,865,392	1,729,163

Notes to Financial Statements

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

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

5. Other receivables (continued)

Top 5 accounts of other receivables as at 30 June 2014 were as follows:

Due from:	Amount	As a percentage of total amount of other receivables
Third-party entity 1	322,750	17.30%
Third-party entity 2	204,350	10.96%
Third-party entity 3	68,558	3.68%
Third-party entity 4	41,051	2.20%
Third-party entity 5	37,480	2.01%
Total	674,189	36.15%

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 30 June 2014, other receivables included receivables due from shareholders or related parties holding 5% or more in the voting shares amounted to RMB15,125,000 (31 December 2013: RMB2,148,000) and the balance of loans granted to related parties by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") amounting to RMB Nil (31 December 2013: loan balance of RMB5,773,000) and balance of discounted bills of nil. For details please refer to Note VI. "Relationships and Transactions with Related Parties".

6. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2014		31 December 2013	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	783,479	100%	751,405	100%

Notes to Financial Statements

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

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

6. Prepayments (continued)

Top 5 accounts of prepayments as at 30 June 2014 were as follows:

Supplier	Amount	As a percentage of total amount of prepayments
Supplier 1	131,183	16.74%
Supplier 2	33,509	4.28%
Supplier 3	28,089	3.59%
Supplier 4	26,618	3.40%
Supplier 5	26,108	3.33%
Total	245,507	31.34%

As at 30 June 2014, RMB545,000 (31 December 2013: RMB908,000) 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. "Relationships and transactions with related parties".

7. Inventories

	30 June 2014			31 December 2013		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials	6,288,844	513,767	5,775,077	3,794,947	475,135	3,319,812
Materials under sub-contract processing	306,379	32,999	273,380	159,844	7,603	152,241
Work-in-progress	1,558,592	63,901	1,494,691	943,734	46,673	897,061
Finished goods	3,695,268	446,629	3,248,639	2,940,432	376,657	2,563,775
Dispatch of goods	8,767,472	807,629	7,959,843	6,120,524	619,061	5,501,463
	20,616,555	1,864,925	18,751,630	13,959,481	1,525,129	12,434,352

Please refer to Note V.18 for details of movements in the provision for impairment of inventory during the period.

Notes to Financial Statements

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

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

8. Amount due from/to customers for contract works

	30 June 2014	31 December 2013
Amount due from customers for contract works	10,380,469	12,137,144
Amount due to customers for contract works	(4,896,879)	(3,682,564)
	5,483,590	8,454,580
Contract costs incurred plus recognized profits to date	45,876,819	41,905,232
Less: Estimated loss	76,087	105,908
Progress billings	40,317,142	33,344,744
	5,483,590	8,454,580

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

9. Available-for-sale financial assets

	30 June 2014	31 December 2013
Available-for-sale equity instruments	1,513,650	1,630,271

10. Long-term receivables

	30 June 2014	31 December 2013
Installment payments for the provision of telecommunication system construction projects	440,907	449,713
Less: Bad debt provision for long-term receivables	84,168	82,951
	356,739	366,762

Please refer to Note V.18 for details of movements in bad debt provision for long-term receivables for the period.

Notes to Financial Statements

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

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

11. Investments in joint ventures and associates

30 June 2014

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation code
Joint ventures						
Bestel Communications Ltd.	Company with limited liability	Republic of Cyprus	Stathis PAPADKIS	Information technology	EUR446,915	Nil
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
Pengzhong Xingsheng	Company with limited liability	Uzbekistan	Nil	Mobile terminals and smart phones	USD3,160,000	Nil
江蘇中興微通信息科技有限公司	Company with limited liability	PRC	Jiang Hua	R&D, sales and technical services for communications products	RMB18,000,000	08418232-2
Associates						
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
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 and related 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	Nil
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	RMB3,4221,649	74610229-X
興天通訊技術(天津)有限公司	Company with limited liability	PRC	Shi Ligong	Communications industry and related services	RMB20,000,000	05525232-8
南京皓信達訊網絡科技有限公司	Company with limited liability	PRC	MARK BRIAN WHITE	R&D, production and sales of network software	USD2,000,000	05328848-2
中興九城網絡科技無錫有限公司	Company with limited liability	PRC	Zeng Xuezhong	Design and installation of computer networks	RMB10,000,000	06187686-6
寧波中興興通供應鍵有限公司	Company with limited liability	PRC	Li Xiangmin	End-to-end supply chain integration services for 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
上海中興思結通訊有限公司	Company with limited liability	PRC	Xia Jun	Communications equipment, electronic components, apparatus and instruments	RMB57,680,000	07291359-7

Notes to Financial Statements

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

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

11. Investments in joint ventures and associates (continued)

31 December 2013

	Type of enterprise	Place of registration/ principal place of business	Legal representative	Nature of business	Registered capital	Organisation code
Joint ventures						
Bestel Communications Ltd.	Company with limited liability	Republic of Cyprus	Stathis Kittis	Information technology	EUR446,915	Nil
普興移動通訊設備有限公司	Company with limited liability	PRC	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
江蘇中興微通信息科技有限公司	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	Nil
Associates						
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
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 and related 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	Nil
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 industry and related services	RMB20,000,000	05525232-8
南京皓信達訊網絡科技有限公司	Company with limited liability	PRC	MARK BRIAN WHITE	R&D and sales of network software and related technical services	USD2,000,000	05328848-2
中興九城網絡科技無錫有限公司	Company with limited liability	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 for 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

Notes to Financial Statements

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

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

12. Long-term equity investments

		30 June 2014	31 December 2013
Equity method			
Joint ventures	(1)	66,224	66,891
Associates	(2)	377,647	411,146
		443,871	478,037

(1) Joint ventures

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Bestel Communications Ltd.	2,050	2,255	—	2,255	50.00%	50.00%	—
普興移動通訊設備有限公司	43,500	46,005	550	46,555	33.85%	50.00%	—
Pengzhong Xingsheng	9,631	9,631	—	9,631	50.00%	50.00%	—
江蘇中興微通信息科技有限公司	9,000	9,000	(1,217)	7,783	50.00%	50.00%	—
		66,891	(667)	66,224			—

Notes to Financial Statements

(Prepared under PRC ASBEs)

Currency: RMB'000

(English translation for reference only)

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

12. Long-term equity investments (continued)

(2) Associates

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
KAZNURTEL Limited Liability Company	3,988	2,477	—	2,477	49.00%	49.00%	—
思卓中興(杭州)科技有限公司	22,845	19,501	180	19,681	49.00%	49.00%	—
上海中興群力信息科技有限公司	2,000	24,851	(2,921)	21,930	40.00%	40.00%	—
ZTE Energy Co., Ltd.	300,000	315,822	(30,136)	285,686	23.26%	23.26%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	973	(331)	642	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	3,222	(815)	2,407	33.00%	33.00%	—
Shenzhen Yuanxing Technology Company Limited	1,850	2,753	—	2,753	25.00%	25.00%	—
Telecom Innovations	4,082	10,077	189	10,266	27.70%	27.70%	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	5,400	5,795	885	6,680	18.00%	18.00%	—
北京億科三友科技發展有限公司	6,844	4,764	—	4,764	20.00%	20.00%	—
興天通訊技術(天津)有限公司	6,000	6,813	(1,828)	4,985	30.00%	30.00%	—
南京皓信達訊網絡科技有限公司	4,200	3,702	(432)	3,270	25.00%	25.00%	—
寧波中興興通供應鍵有限公司	4,000	4,000	65	4,065	20.00%	20.00%	—
寧波中興雲祥科技有限公司	3,200	3,200	4,685	7,885	20.00%	20.00%	—
中興九城網絡科技無錫有限公司	3,350	3,134	(3,040)	94	33.50%	33.50%	—
上海中興思秸通訊有限公司	57,680	—	—	—	30.00%	30.00%	—
		411,146	(33,499)	377,647			—

Notes to Financial Statements

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

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

13. Investment properties

	30 June 2014 RMB'000	31 December 2013 RMB'000
Fair value		
Carrying value at 1 January	1,855,246	1,686,158
Transfer from fixed assets and construction in progress (Notes 14 and 15)	18,904	130,384
	1,874,150	1,816,542
Gain/(loss) from change in fair value (Note 40)	77,475	38,704
Carrying value at the end of the period	1,951,625	1,855,246

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 valuation was conducted by 天健國眾聯資產評估土地房地產估價有限公司 of Shenzhen using the income method by reference to current leases or objective market transaction prices for similar properties in neighboring regions and discounted amounts of expected future income. The fair value as at 30 June 2014 was RMB1,951,625,000 and the change in fair value for the period was RMB77,475,000. For details please refer to Note V.40.

As at 30 June 2014, ownership registration certificates had yet to be obtained for investment properties of the Group with a total book value of RMB1,374,537,000 (31 December 2013: RMB1,323,370,000).

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:	—	—	1,951,625	1,951,625

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.

Notes to Financial Statements

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

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

13. Investment properties (continued)

Fair value hierarchy (continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000
Carrying amount at 1 January 2014	1,855,246
Additions (expenses subsequent to capitalization)	18,904
Net gain from a fair value adjustment	77,475
Carrying amount at 30 June 2014	1,951,625

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)	RMB41 to RMB477
		Rent growth (p.a.)	1%–5%
		Long term vacancy rate	5%
		Discount rate	6%

Notes to Financial Statements

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

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

14. Fixed assets

	Opening balance	Increase during the period	Decrease during the period	Exchange rate adjustments	Closing balance
Cost					
Buildings	5,575,209	17,957	(16,770)	19,819	5,596,215
Freehold land	60,600	—	—	5,440	66,040
Electronic equipment	3,624,951	316,853	(135,927)	8,339	3,814,216
Machinery equipment	2,374,673	110,422	(45,763)	3,864	2,443,196
Vehicles	312,797	11,943	(16,470)	739	309,009
Other equipment	246,902	45,740	(29,035)	3,778	267,385
	12,195,132	502,915	(243,965)	41,979	12,496,061
Accumulated depreciation					
Buildings	756,755	95,063	(3,273)	14,297	862,842
Freehold land	—	—	—	—	—
Electronic equipment	2,415,467	403,615	(138,332)	5,293	2,686,043
Machinery equipment	1,270,026	84,784	(32,821)	1,642	1,323,631
Vehicles	165,272	14,283	(11,998)	604	168,161
Other equipment	136,078	46,544	(10,093)	2,138	174,667
	4,743,598	644,289	(196,517)	23,974	5,215,344
Provision for impairment					
Buildings	—	—	—	—	—
Freehold land	—	—	—	—	—
Electronic equipment	—	—	—	—	—
Machinery equipment	2,058	—	—	39	2,097
Vehicles	—	—	—	—	—
Other equipment	—	—	—	—	—
	2,058	—	—	39	2,097
Net book value					
Buildings	4,818,454	(77,106)	(13,497)	5,522	4,733,373
Freehold land	60,600	—	—	5,440	66,040
Electronic equipment	1,209,484	(86,762)	2,405	3,046	1,128,173
Machinery equipment	1,102,589	25,638	(12,942)	2,183	1,117,468
Vehicles	147,525	(2,340)	(4,472)	135	140,848
Other equipment	110,824	(804)	(18,942)	1,640	92,718
	7,449,476	(141,374)	(47,448)	17,966	7,278,620

Depreciation for the six months ended 30 June 2014 amounted to RMB644,289,000 (six months ended 30 June 2013: RMB472,644,000).

For the six months ended 30 June 2014, there was no transfer from construction in progress to fixed assets (six months ended 30 June 2013: RMB897,000,000) at cost.

For the six months ended 30 June 2014, fixed assets amounting to RMB18,904,000 were transferred to investment properties (six months ended 30 June 2013: Nil).

Notes to Financial Statements

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

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

14. Fixed assets (continued)

As at 30 June 2014, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2013: Nil); as at 30 June 2014, houses and buildings with a book value of RMB683,394,000 were subject to ownership restrictions, as they had been pledged as security for borrowings (31 December 2013: RMB683,394,000).

As at 30 June 2014, no machinery and equipment were subject to ownership restrictions (31 December 2013: Nil).

As at 30 June 2014, retired fixed assets or idle fixed assets amounting to RMB1,097,000 were pending disposal (31 December 2013: Nil).

As at 30 June 2014, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Nanjing, Shanghai, Xi'an, Wantong of Anhui and Hengyang of Hunan in the PRC with a net book value of approximately RMB3,638,079,000 (31 December 2013: RMB3,687,123,000).

15. Construction in progress

	Budget	Opening balance	Increase during the period	Transfer to fixed assets during the period	Transfer to Investment properties during the period	Closing balance	Source of funds
Staff quarters	Nil	5,556	1,750	—	—	7,306	Internal funds
Sanya R&D Base project	Nil	6,371	202	—	—	6,573	Internal funds
Equipment installation	Nil	35,372	2,845	—	—	38,217	Internal funds
Phase I Works, Xi'an Zone 2	Nil	93,069	2,292	—	—	95,361	Internal funds
Site A10 Project, Xi'an Technology Park	Nil	—	—	—	—	—	Internal funds
C3 R&D Centre, Technology Park	Nil	—	—	—	—	—	Internal funds
Phase I, Heyuan Production R&D Training Base	Nil	13,852	—	—	—	13,852	Internal funds
Phase II Work, North Zone, Industry Park	Nil	94	—	—	—	94	Internal funds
Phase 1 Works, Nanjing Zone 3	Nil	643	45	—	—	688	Internal funds
Phase 2 Works, Xi'an Zone 2	Nil	194	—	—	—	194	Internal funds
Phase 2 Works, Nanjing Zone 2	Nil	161	45	—	—	206	Internal funds
Phase II, Nanjing staff quarters	Nil	4,173	6,352	—	—	10,525	Internal funds
Others	Nil	17,938	9,975	—	—	27,913	Internal funds
Total:		177,423	23,506	—	—	200,929	

Notes to Financial Statements

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

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

15. Construction in progress (continued)

As at 30 June 2014, there was no capitalized interest amount in the balance of the construction in progress (31 December 2013: Nil).

As at 30 June 2014, no construction in progress was subject to ownership restrictions (31 December 2013: Nil).

Notes to Financial Statements

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

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

16. Intangible assets

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Cost				
Software	464,168	367,459	(13,055)	818,572
Technology know-how	6,605	94	—	6,699
Land use rights	1,188,778	38,712	(4,091)	1,223,399
Operating concessions	332,583	(27)	—	332,556
	1,992,134	406,238	(17,146)	2,381,226
Accumulated amortisation				
Software	326,556	315,824	(12,974)	629,406
Technology know-how	1,768	451	(1)	2,218
Land use rights	94,786	10,289	(1,552)	103,523
Operating concessions	325,947	267	—	326,214
	749,057	326,831	(14,527)	1,061,361
Net book value				
Software	137,612	51,635	(81)	189,166
Technology know-how	4,837	(357)	1	4,481
Land use rights	1,093,992	28,423	(2,539)	1,119,876
Operating concessions	6,636	(294)	—	6,342
	1,243,077	79,407	(2,619)	1,319,865
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use rights	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Carrying value				
Software	137,612	51,635	(81)	189,166
Technology know-how	4,837	(357)	1	4,481
Land use rights	1,087,670	28,423	(2,539)	1,113,554
Operating concessions	6,636	(294)	—	6,342
	1,236,755	79,407	(2,619)	1,313,543

Amortisation for the six months ended 30 June 2014 amounted to RMB38,826,000 (six months ended 30 June 2013: RMB67,338,000).

As at 30 June 2014, intangible assets with a total book value of RMB103,613,000 were subject to ownership restrictions as they had been pledged as security for borrowings (31 December 2013: RMB23,650,000).

As at 30 June 2014, 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 RMB566,145,000 (31 December 2013: RMB647,083,000).

Notes to Financial Statements

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

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

16. Intangible assets (continued)

For the six months ended 30 June 2014, no land use rights were reclassified as investment properties (six months ended 30 June 2013: Nil).

Deferred development costs are analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	289,356	60,290	58,384	291,262
System products	2,642,792	540,189	298,375	2,884,606
	2,932,148	600,479	356,759	3,175,868

For the six months ended 30 June 2014, deferred development costs accounted for 12.70% of total research and development costs (six months ended 30 June 2013: 10.8%).

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:

	30 June 2014	31 December 2013
Deferred tax assets		
Unrealised profits arising on consolidation	104,645	117,100
Provision for impairment in inventory	150,002	131,522
Foreseeable contract losses	1,027	2,710
Amortisation of deferred development cost	96,856	87,447
Provision for warranties and returned goods	89,306	57,758
Provision for retirement benefits	14,266	14,370
Share incentive costs	16,796	4,456
Deductible tax losses	602,114	591,006
Accruals	166,204	190,092
Overseas taxes pending deduction	140,863	156,572
	1,382,079	1,353,033

Notes to Financial Statements

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

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

17. Deferred tax assets/liabilities (continued)

	30 June 2014	31 December 2013
Deferred tax liabilities		
Financial assets at fair value through profit or loss	(20,589)	—
Investment properties	(139,900)	(139,900)
	(160,489)	(139,900)

18. Provision for impairment of assets

	Opening balance	Provision for the period	Decrease during the period		Effect of exchange	Closing balance
			Write-back	Write-off		
Bad debt	3,834,169	912,867	(93,695)	(6,561)	40,343	4,687,123
Including: Trade receivables	3,751,218	911,884	(93,695)	(6,561)	40,109	4,602,955
Long term trade receivables	82,951	983	—	—	234	84,168
Provision for impairment of inventories	1,525,129	352,088	(29,265)	(10,417)	27,390	1,864,925
Provision for impairment of fixed assets	2,058	—	—	—	39	2,097
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
	5,367,678	1,264,955	(122,960)	(16,978)	67,772	6,560,467

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.

Notes to Financial Statements

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

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

19. Short-term loans

		30 June 2014		31 December 2013	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	2,526,000	2,526,000	4,715,950	4,715,950
	USD	854,437	5,311,608	1,206,556	7,356,253
	EUR	24,207	205,288	24,207	203,799
	INR	—	—	2,076,400	204,933
Guaranteed loans	RMB	1,500,000	1,500,000	—	— Note 1
Secured loans	RMB	269,500	269,500	—	— Note 2
Bill discounted loans	RMB	—	—	102,000	102,000
Pledged loans	RMB	500,500	500,500	—	— Note 3
	USD	1,000	6,217	1,000	6,097 Note 4
		10,319,113		12,589,032	

As at 30 June 2014, interest rates of the above loans were 1.87%-7.21% per annum (31 December 2013: 1.54%-14.25%).

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 were secured by land use rights with a carrying value of RMB23,650,000 and buildings with a carrying value of RMB683,394,000 provided by Xi'an Zhongxing New Software Company Limited.

Note 3: The pledged loans were pledged against trade receivables with a carrying value of RMB750,000,000 provided by Xi'an Zhongxing New Software Company Limited.

Note 4: The pledged loans were loans secured by time deposits.

20. Financial liability dealt with at fair value through current profit or loss

	30 June 2014	31 December 2013
Derivative financial liability	183,919	61,659
Hedging instruments — current portion	6,388	6,120
	190,307	67,779

Notes to Financial Statements

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

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

21. Bill payable

	30 June 2014	31 December 2013
Bank acceptance bills	4,601,577	4,071,009
Commercial acceptance bills	5,292,900	4,427,012
	9,894,477	8,498,021

Amount of bill payable due in the next accounting period will be RMB9,894,477,000 (31 December 2013: RMB8,498,021,000). As at 30 June 2014, RMB9,092,000 due to shareholders holding 5% or more in the voting shares were included in bills payable (31 December 2013: RMB4,038,000). Please refer to Note VI. "Relationships and transactions with related parties" for details.

22. Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2014	31 December 2013
0 to 6 months	19,005,670	15,853,456
7 to 12 months	218,511	144,334
1 to 2 years	59,904	181,730
2 to 3 years	177,747	258,957
Over 3 years	257,841	54,057
	19,719,673	16,492,534

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

As at 30 June 2014, trade payables included amounts due to shareholders holding 5% or more in the voting shares amounting to RMB212,669,000 (31 December 2013: RMB280,393,000). Please refer to Note VI. "Relationships and transactions with related parties" for details.

23. Advances from customers

	30 June 2014	31 December 2013
Advanced payments for system project work	2,197,818	1,890,385
Advanced payments for terminals	849,866	885,981
	3,047,684	2,776,366

As at 30 June 2014, advances from customers included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB19,752,000 (31 December 2013: RMB11,745,000). Please refer to Note VI. "Relationships and transactions with related parties" for details.

Notes to Financial Statements

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

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

24. Salary and welfare payables

	Opening balance	Accruals during the period	Payments during the period	Closing balance
Salary, bonus and allowance	1,504,693	5,275,287	4,954,803	1,825,177
Staff welfare	5,441	28,261	31,848	1,854
Social insurance	69,052	762,641	738,207	93,486
Including: Pension Insurance	48,995	492,774	472,864	68,905
Medical Insurance	17,265	213,905	208,201	22,969
Unemployment Insurance	1,228	30,567	31,599	196
Working Injuries Insurance	1,453	10,372	10,439	1,386
Maternity Insurance	111	15,023	15,104	30
Housing funds	44,472	253,672	252,374	45,770
Labour union fund and employee education fund	838,348	47,446	176	885,618
	2,462,006	6,367,307	5,977,408	2,851,905

25. Tax payable

	30 June 2014	31 December 2013
Value-added tax	(3,183,902)	(2,393,454)
Business tax	489,303	434,616
Income tax	525,337	557,059
PRC tax	411,129	348,085
Overseas tax	114,208	208,974
Individual income tax	80,915	60,350
City maintenance and construction tax	59,086	54,272
Education surcharge	48,008	43,330
Other taxes	(23,512)	(8,032)
	(2,004,765)	(1,251,859)

26. Dividend payable

	30 June 2014	31 December 2013
Dividend payable to holders of restricted shares	152	152
Dividend payable to minority shareholders	13,489	34,811
	13,641	34,963

Notes to Financial Statements

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

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

27. Other payables

	30 June 2014	31 December 2013
Accruals	792,828	686,700
Contributions to staff housing	66,168	66,168
Payables to external parties	5,036,993	6,788,985
Deposits	28,356	28,488
Factored interests payable	75,537	84,084
Payables to employees	568,926	426,883
Others	329,784	396,836
	6,898,592	8,478,144

As at 30 June 2014, other payables include amounts due to shareholders or related parties holding 5% or more in the voting rights amounting to RMB899,000 (31 December 2013: RMB1,667,000) and the balance of deposits received by ZTE Group Finance from related parties amounting RMB33,936,000 (31 December 2013: RMB24,397,000). Please refer to Note VI. "Relationships and transactions with related parties" for details.

28. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Outstanding litigation	110,694	7,818	—	118,512
Provision for returned handsets	169,315	147,822	(142,624)	174,513
Provision for warranties	321,102	47,348	(58,566)	309,884
	601,111	202,988	(201,190)	602,909

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

	30 June 2014	31 December 2013
Long-term loans due within one year	2,809,528	2,753,925
Bonds cum warrants due within one year	5,999,387	—
	8,808,915	2,753,925

Notes to Financial Statements

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

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

29. Long-term non-current liabilities due within one year (continued)

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

		30 June 2014		31 December 2013	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Pledged loans	USD	2,000	12,433	2,000	12,194
Guaranteed loans (Note 1)	USD	449,947	2,797,095	449,692	2,741,731
			2,809,528		2,753,925

Note 1: The guaranteed loans included syndicated loans of RMB2,797,095,000 entered into between ZTE (H.K.) Limited, a subsidiary of ZTE Corporation, and Bank of China (Hong Kong) Limited and guaranteed by ZTE Corporation.

As at 30 June 2014, long-term non-current loans due within one year were as follows:

	Loan drawdown date	Loan due date	Currency	Interest rate (%)	30 June 2014		31 December 2013	
					Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
Bank of China	2011.7.20	2014.7.20	USD	Approximately 2%	349,968	2,175,578	349,778	2,132,563
Bank of China	2011.8.15	2014.8.15	USD	Approximately 3%	99,979	621,517	99,914	609,168
Shanghai Pudong Development Bank	2012.11.27	2014.11.27	USD	Approximately 3%	2,000	12,433	2,000	12,194

30. Long-term loans

		30 June 2014		31 December 2013	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	1,762,000	1,762,000	1,782,000	1,782,000
	USD	12,144	75,493	17,664	107,696
Guaranteed loans	USD	447,653	2,782,834	447,109	2,725,977
Secured loans	RMB	47,000	47,000	269,500	269,500
Pledged loans	RMB	—	—	500,500	500,500
			4,667,327		5,385,673

Note 1: The guaranteed loans represented syndicate loans entered into between ZTE (H.K.) Limited, a subsidiary of ZTE Corporation, and Bank of China (Hong Kong) Limited and guaranteed by ZTE Corporation.

Note 2: RMB47,000,000 of the secured loans were loans for 衡陽網信數字城市建設有限公司 secured by land use rights with a carrying value of RMB79,963,000 owned by it.

Notes to Financial Statements

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

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

30. Long-term loans (continued)

As at 30 June 2014, the top five long-term loans were as follows:

	Loan drawdown date	Loan due date	Currency	Interest rate (%)	Balance as at June 2014		Balance as at the end of 2013	
					Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approximately 3%	447,653	2,782,834	447,109	2,725,977
China Merchants Bank	2013.5.31	2016.5.30	RMB	Approximately 7%	1,000,000	1,000,000	1,000,000	1,000,000
Industrial and Commercial Bank of China	2013.5.17	2016.5.17	RMB	Approximately 6%	480,000	480,000	490,000	490,000
Industrial and Commercial Bank of China	2013.6.17	2016.6.17	RMB	Approximately 6%	280,000	280,000	290,000	290,000
China Development Bank	2006.10.15	2016.10.15	USD	Approximately 6%	12,144	75,493	17,664	107,696

31. Bonds payable

30 June 2014

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Bonds payable	6,119,590	131,797	(6,251,387)	— Note 1

31 December 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: 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. The closing balance of bond payables for the period was transferred to non-current liabilities with maturity of less than 1 year.

Notes to Financial Statements

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

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

32. Other non-current assets/liabilities

Other non-current assets

	30 June 2014	31 December 2013
Prepayments for project, equipment and land	164,447	217,270
Risk compensation	4,002,311	3,396,897
Others	50,000	198,430
	4,216,758	3,812,597

Other non-current liabilities

	30 June 2014	31 December 2013
Long-term financial guarantee contract	3,689	3,689
Factored interests payable	230,332	257,540
Non-current portion of hedging instruments	3,365	4,286
Deferred income relating to staff housing	1,086,148	1,164,994
	1,323,534	1,430,509

33. Share capital

	Opening Balance	Change during the period	Closing balance
Restricted shares			
Senior management shares	7,226	(560)	6,666
Total number of restricted shares	7,226	(560)	6,666
Unrestricted shares			
RMB Ordinary Shares	2,800,730	560	2,801,290
Overseas listed foreign shares	629,585	—	629,585
Total number of unrestricted shares	3,430,315	560	3,430,875
Total number of shares	3,437,541	—	3,437,541

Notes to Financial Statements

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

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

34. Capital reserves

	Opening Balance	Increase during the period	Decrease during the period	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
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	(11,072)	848	—	(10,224)
Share-based payments	22,856	89,120	—	111,976
Capital injection from government	80,000	—	—	80,000
Gain/(loss) arising from changes in the fair value of available-for-sale financial assets	161,856	1,279	(135,726)	27,409
Changes resulting from revaluation of net liabilities of defined benefit schemes	(38,851)	—	—	(38,851)
	9,491,663	91,247	(135,726)	9,447,184

35. Surplus reserves

	Opening Balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	1,613,195	—	—	1,613,195

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.

Notes to Financial Statements

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

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

36. Retained profits

	30 June 2014
Retained profits at the beginning of the period	8,933,788
Net profit	1,128,206
Less: Statutory surplus reserves	—
Proposed final dividend	—
Retained profits at the end of the period	10,061,994

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.

37. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013 (Restated)
Revenue	37,505,232	37,277,501
Other income	192,077	227,283
	37,697,309	37,504,784

Operating cost is analysed as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Costs of sales	25,464,930	27,163,431
Other operating expenses	44,900	70,743
	25,509,830	27,234,174

Notes to Financial Statements

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

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

37. Operating revenue and costs (continued)

Principal operations by product:

	Six months ended 30 June 2014		Six months ended 30 June 2013 (Restated)	
	Revenue	Cost	Revenue	Cost
Networks	21,835,700	13,392,563	19,050,466	12,419,933
Terminals	10,406,174	8,748,746	12,460,868	10,538,437
Telecommunications software system, services and other products	5,263,358	3,323,621	5,766,167	4,205,061
	37,505,232	25,464,930	37,277,501	27,163,431

Principal operations by geography:

	Six months ended 30 June 2014		Six months ended 30 June 2013 (Restated)	
	Revenue	Cost	Revenue	Cost
The PRC	19,097,324	12,155,007	18,532,664	13,216,788
Asia (excluding the PRC)	5,853,726	3,975,448	6,317,232	4,914,259
Africa	2,210,694	1,587,134	3,034,884	2,191,356
Europe, Americas and Oceania	10,343,488	7,747,341	9,392,721	6,841,028
	37,505,232	25,464,930	37,277,501	27,163,431

For the six months ended 30 June 2014, operating revenue from the top five customers was as follows:

Names of customer	Six months ended 30 June 2014 As a percentage of operating revenue %	
	Amount	
Customer 1	8,663,024	22.98%
Customer 2	3,285,230	8.71%
Customer 3	2,432,159	6.45%
Customer 4	1,138,627	3.02%
Customer 5	1,062,674	2.83%
	16,581,714	43.99%

Sales to the top five customers of the Group generated revenue of RMB16,581,714,000 for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB14,004,942,000), accounting for 43.99% (six months ended 30 June 2013: 37.34%) of the Group's revenue from principal operations.

Notes to Financial Statements

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

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

38. Construction contracts

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

39. Taxes and surcharges

	Six months ended 30 June 2014	Six months ended 30 June 2013
Business tax	381,650	135,188
City maintenance and construction tax	137,692	115,886
Education surcharge	113,820	93,252
Others	39,127	18,310
	672,289	362,636

For tax standards, please refer to Note III. "Taxation".

40. Gains/losses from changes in fair values

	Six months ended 30 June 2014	Six months ended 30 June 2013
Trading financial assets/liabilities at fair value through profit or loss	(136,244)	109,144
Including: derivative financial instruments	(261,024)	117,697
Investment properties at fair value	77,475	53,744
	(58,769)	162,888

Notes to Financial Statements

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

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

41. Investment income

	Six months ended 30 June 2014	Six months ended 30 June 2013
Long-term equity investment loss under equity method	(40,448)	(29,644)
Long-term equity investment income under cost method	1,609	7,501
Investment loss arising from the disposal of derivative financial instruments	(36,248)	(21,293)
Investment income/(loss) from the disposal of equity interests	(1,329)	852,567
Gain on investment in securities	43	—
	(76,373)	809,131

As at 30 June 2014, the Group was not subject to significant restrictions in remitting its investment income.

42. Finance expenses

	Six months ended 30 June 2014	Six months ended 30 June 2013 (Restated)
Interest expenses	753,749	766,104
Less: Interest income	253,587	159,514
Loss/(gain) on foreign currency exchange	(198,949)	638,028
Cash discounts and interest subsidy	71,218	28,833
Bank charges	135,539	96,675
	507,970	1,370,126

43. Impairment losses

	Six months ended 30 June 2014	Six months ended 30 June 2013
Bad debt provisions	819,172	627,247
Inventories provisions	322,823	299,441
	1,141,995	926,688

Notes to Financial Statements

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

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

44. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2014	Six months ended 30 June 2013	Amount included in the non-recurring profit/loss of the period
Refund of VAT on software products (Note 1)	1,313,580	1,117,154	—
Others (Note 2)	599,084	439,498	385,448
	1,912,664	1,556,652	385,448

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 Group, pursuant to the principles of the State Council document entitled product sales by some subsidiaries of the Company, pursue Software Enterprise and the IC Industry' and the approval reply of the state taxation authorities.

Note 2: Others represent gains from government grants, contract penalties and other gains.

Non-operating expenses

	Six months ended 30 June 2014	Six months ended 30 June 2013	Amount included in the non-recurring profit/loss of the period
Compensation	5,819	253	5,819
Loss on disposal of non-current assets	16,179	7,171	16,179
Others	36,631	34,774	36,631
	58,629	42,198	58,629

45. Income tax

	Six months ended 30 June 2014	Six months ended 30 June 2013
Current income tax	481,132	387,474
Deferred income tax	(8,457)	25,063
	472,675	412,537

Notes to Financial Statements

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

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

45. Income tax (continued)

Income tax and total profit reconciled as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Total profit	1,643,986	741,781
Tax at statutory tax rate (Note 1)	410,997	185,446
Effect of different tax rates applicable to certain subsidiaries	(116,545)	(154,549)
Adjustment to current tax in previous periods	(82,662)	20,237
Profits and losses attributable to joint ventures and associates	6,005	6,989
Income not subject to tax	(201,617)	(163,573)
Expenses not deductible for tax	317,347	238,609
Utilisation of deductible tax losses from previous years	(155,431)	(23,040)
Unrecognised tax losses	294,581	302,418
Tax amounts at the Group's effective tax rates	472,675	412,537

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

46. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Notes to Financial Statements

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

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

46. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	1,128,206	310,012
Shares		
Weighted average number of ordinary shares of the Company	3,437,541	3,437,541
Diluting effect — weighted average number of ordinary shares	—	—
Adjusted weighted average number of ordinary shares of the Company	3,437,541	3,437,541

47. Other comprehensive income

	Six months ended 30 June 2014	Six months ended 30 June 2013
Fair-value changes in hedging instruments	848	7,513
Fair-value changes in available-for-sale financial assets	(132,607)	60,487
Differences arising from foreign currency translation	130,301	(167,838)
	(1,458)	(99,838)

48. Notes to cash flow statement

	Six months ended 30 June 2014	Six months ended 30 June 2013
Cash received in connection with other operating activities:		
Interest income	253,587	88,086
Cash paid in connection with other operating activities:		
Selling and distribution costs	2,830,676	2,681,274
Administrative expenses and research and development costs	807,806	692,729

Notes to Financial Statements

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

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

49. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Net profit	1,171,311	329,244
Add: Provision for impairment of assets	1,141,995	926,688
Depreciation of fixed assets	644,289	472,644
Amortisation of intangible assets and deferred development costs	395,585	312,765
Amortisation of long-term deferred assets	16,643	8,502
Loss on disposal of fixed assets, intangible assets and other long-term assets	16,179	7,171
Loss/(gains) from changes in fair value	58,769	(162,888)
Finance expenses	927,124	493,026
Investment loss/(gain)	76,373	(809,131)
Increase in deferred tax assets	(29,046)	(25,063)
Increase in deferred tax liabilities	20,589	—
Increase in inventories	(6,667,491)	(434,163)
Decrease in operating receivables	603,194	2,946,770
Increase/(decrease) in operating payables	3,358,373	(8,765,742)
Share incentive scheme costs	89,120	—
(Increase)/decrease in cash not immediately available for payments	(1,107,698)	359,093
Net cash flows from operating activities	715,309	(4,341,084)

(2) Change in cash and cash equivalents:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Cash		
Including: Cash on hand	27,390	3,175
Bank deposit readily available	16,023,790	15,912,516
Cash and cash equivalents at the end of the period	16,051,180	15,915,691

Notes to Financial Statements

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

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 Weiliang	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. Joint ventures and associates

Details of the joint ventures 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
深圳市中興昆騰有限公司	Under the same controlling shareholder as the Company	58273445-X
中興儀器(深圳)有限公司	Under the same controlling shareholder as the Company	58919362-5
上海中興派能能源科技有限公司	Under the same controlling shareholder as the Company	69582625-4
深圳中興創新材料技術有限公司	Under the same controlling shareholder as the Company	05277993-3
南京中興群力信息科技有限公司	Subsidiary of an associate of the Company	69837419-3
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company	56420239-6
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company	69741992-7
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company	56720442-6
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company	57076139-7
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company	59224568-4

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship	Organisation number
鄂爾多斯市雲泰互聯科技有限公司	Subsidiary of an associate of the Company	57569224-7
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
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
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company for which a Supervisor of the Company's controlling shareholder acted as director	71522427-8
Shenzhen Aerospace Guangyu Industrial Company Limited	Company for which a Director of the Company acted as director	19217503-1
深圳市航天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
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which the Company's Chairman acted as chairman	76591251-1
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which the Company's Chairman acted as chairman	79590131-1
Huatong Technology Company Limited	Subsidiary of a company for which the Company's Chairman acted as chairman	66527177-X
中興軟件技術(瀋陽)有限公司	Subsidiary of a company for which the Company's Chairman acted as chairman	55077950-6
三河中興發展有限公司	Subsidiary of a company for which the Company's Chairman acted as chairman	78409578-0
三河中興物業服務有限公司	Subsidiary of a company for which the Company's Chairman acted as chairman	67854891-8
杭州中興發展有限公司	Subsidiary of a company for which the Company's Chairman acted as chairman	77355476-9
中興綠色農業有限公司	Indirect subsidiary of a company for which the Company's Chairman acted as chairman	59450807-0
Zhongxing Development Company Limited	Company for which the Company's Chairman acted as chairman	75048467-3
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
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman	66265572-7
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Company for which a connected natural person of the Company acted as chairman	Nil

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) Transaction of goods with related parties

Sales of goods to related parties

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxing Information Company Limited	6	—	900	—
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1,964	0.01	952	—
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	949	—	1,466	0.01
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	44	—	3	—
南京中興群力信息科技有限公司	460	—	714	—
普興移動通訊設備有限公司	340,501	0.91	27,959	0.07
Shenzhen Zhongxing Xinyu FPC Company Limited	—	—	64	—
Wuxi KaiEr Technology Company Limited*	—	—	31	—
Shenzhen Shenglongfeng Industrial Company Limited	—	—	3	—
北京協力超越科技有限公司	15	—	112	—
ZTE Software Technology (Nanchang) Company Limited	109	—	137	—
深圳市中興昆騰有限公司	56	—	144	—
中興軟件技術(瀋陽)有限公司	2	—	1	—
北京億科三友科技發展有限公司	—	—	3	—
上海歡流傳媒有限公司	713	—	206	—
Huatong Technology Company Limited	—	—	3	—
ZTE Energy Co., Ltd.	—	—	1,651	0.01
深圳市航天歐華科技發展有限責任公司	93,760	0.25	—	—
Telecom Innovations	14,962	0.04	—	—
興天通訊技術(天津)有限公司	784	—	—	—
中興九城網絡科技無錫有限公司	11,299	0.03	—	—
深圳中興創新材料技術有限公司	21	—	—	—
江蘇中興微通信信息科技有限公司	333	—	—	—
寧波中興雲祥科技有限公司	134	—	—	—
上海中興思粘通訊有限公司	442	—	—	—
中興儀器(深圳)有限公司	96	—	—	—
	466,650	1.24	34,349	0.09

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

Sales of goods to related parties (continued)

For the six months ended 30 June 2014, sales to related parties accounted for 1.24% of the Group's total sales (Six months ended 30 June 2013: 0.09%).

* Wuxi Zhongxing Optoelectronics Technologies Company Limited ("Wuxi Zhongxing") has been deconsolidated from the Group accounts with effect from November 2013. The associate companies of Wuxi Zhongxing, Wuxi KaiEr Technology Company Limited and Wuxi Hongtu Micro-electronic Technology Co., Ltd, have ceased to be related parties of the Group. Connected transactions with the said company disclosed above included only transactions between such company and the Group during the period when it was a related party of the Group.

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

Purchase of goods from related parties

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	125,166	0.56	92,496	0.44
Wuxi KaiEr Technology Company Limited*	—	—	23,831	0.11
Shenzhen Zhongxing Xinyu FPC Company Limited	31,593	0.14	35,619	0.17
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	386,390	1.72	148,247	0.71
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	92,114	0.41	101,732	0.49
Shenzhen Shenglongfeng Industrial Company Limited	40,824	0.18	11,625	0.06
ZTE Software Technology (Nanchang) Company Limited	10,886	0.05	2,369	0.01
Huatong Technology Company Limited	12,598	0.06	8,176	0.04
Zhongxing Energy (Tianjin) Company Limited	3,957	0.02	464	—
Zhongxing Energy (Shenzhen) Company Limited	859	—	838	—
上海歡流傳媒有限公司	—	—	296	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	14,182	0.06	11,041	0.05
南京中興和泰酒店管理有限公司	1,685	0.01	648	—
上海市和而泰酒店投資管理有限公司	1,873	0.01	1,804	0.01
西安中興和泰酒店管理有限公司	458	—	792	—
北京億科三友科技發展有限公司	—	—	1,114	0.01
中興能源(天津)節能服務有限公司	—	—	5,858	0.03
Shenzhen Aerospace Guangyu Industrial Company Limited	—	—	16,368	0.08
Shenzhen Zhongxing Information Company Limited	3,976	0.02	—	—
中興九城網絡科技無錫有限公司	5,404	0.02	—	—
上海中興思秸通訊有限公司	45	—	—	—
	732,010	3.26	463,318	2.21

For the six months ended 30 June 2014, purchase of goods from related parties accounted for 3.26% of the Group's total sales (Six months ended 30 June 2013: 2.21%).

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

Lease of properties to related parties

Six months ended 30 June 2014

	Property leased	Starting date	Ending date	Lease gain recognized
Zhongxing Development Company Limited	Office	1/1/2013	12/31/2014	1,073
深圳中興科揚節能環保股份有限公司	Office	1/1/2013	12/31/2014	70
	Office	1/1/2013	6/30/2014	86
中興綠色農業有限公司	Office	7/1/2013	6/30/2014	130
普興移動通訊設備有限公司	Office	1/1/2014	12/31/2017	129
中興儀器(深圳)有限公司	Office	1/1/2013	5/31/2017	216
南京中興群力信息科技有限公司	Office	10/1/2013	9/30/2014	223
上海歡流傳媒有限公司	Office	7/1/2013	6/30/2014	156
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	Property and equipment and facilities	7/1/2013	6/30/2014	4,022
南京中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2013	6/30/2014	2,137
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	7/1/2013	6/30/2014	8,054
西安中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2013	6/30/2014	8,734

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

Lease of properties to related parties (continued)

Six months ended 30 June 2013

	Property leased	Starting date	Ending date	Lease gain recognized
Zhongxing Development Company Limited	Office	1/1/2013	12/31/2014	1,073
北京協力超越科技有限公司	Office	1/1/2013	3/31/2013	11
深圳中興科揚節能環保股份 有限公司	Office	1/1/2013	12/31/2014	70
中興綠色農業有限公司	Office	1/1/2013	6/30/2014	86
普興移動通訊設備有限公司	Office	1/1/2013	6/30/2014	106
中興儀器(深圳)有限公司	Office	1/1/2013	8/31/2015	39
中興儀器(深圳)有限公司	Office	1/1/2013	12/31/2014	146
深圳市中興昆騰有限公司	Office	1/1/2013	4/30/2013	403
南京中興群力信息科技有限公司	Office	4/1/2013	3/31/2014	52
上海歡流傳媒有限公司	Office	1/1/2013	6/30/2013	156
Wuxi Hongtu Micro-electronic Technology Co., Ltd*	Office	1/1/2013	9/30/2013	180
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	7,348
西安中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	5,896

Notes to Financial Statements

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

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

Six months ended 30 June 2014

	Property leased	Starting date	Ending date	Lease cost recognized
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2013	4/17/2015	4,414
Zhongxing Development Company Limited	Office	4/18/2013	4/17/2015	22,867
Chongqing Zhongxing Development Company Limited	Office	6/1/2013	12/31/2014	4,015
三河中興發展有限公司	Office	3/1/2014	2/28/2017	1,263
	Office	12/18/2012	12/17/2015	303
三河中興物業服務有限公司	Office	12/18/2012	12/17/2015	74
	Office	3/1/2014	2/28/2017	301

Six months ended 30 June 2013

	Property leased	Starting date	Ending date	Lease cost recognized
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	2,624
	Office	4/18/2013	4/17/2015	1,790
Zhongxing Development Company Limited	Office	4/18/2010	4/17/2013	12,081
	Office	4/18/2013	4/17/2015	9,274
Chongqing Zhongxing Development Company Limited	Office	1/1/2012	12/31/2014	4,390
三河中興發展有限公司	Office	8/1/2011	3/17/2013	173
	Office	12/18/2012	12/17/2015	303
三河中興物業服務有限公司	Office	12/18/2012	12/17/2015	74

Notes to Financial Statements

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

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 the first six months of 2014 and 2013, no guarantee was provided by related parties to the subsidiaries of the Group.

(4) Other major related transactions

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	Amount	Percentage (%)	Amount	Percentage (%)
Remuneration of key management personnel	15,469	0.29%	9,735	0.15%

Notes:

- (i) Commercial transactions with related parties: Commercial transactions with related parties during the six months ended 30 June of the current year was conducted by the Group at market price
- (ii) Leasing property to/from related parties: Office space was leased to the aforesaid related parties by the Group during the six months ended 30 June of the current year and lease income of RMB25,030,000 (Six months ended 30 June 2013: RMB21,744,000) was recognized in accordance with relevant lease contracts.
- Office space was leased to the Group by the aforesaid related parties during the six months ended 30 June of the current year and lease expenses of RMB33,237,000 (Six months ended 30 June 2013: RMB30,709,000) was recognized in accordance with relevant lease contracts.
- (iii) Guarantee for related parties: During the six months ended 30 June of the current year, the Company has not provided any 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 six months ended 30 June of the current year was RMB15,469,000 (Six months ended 30 June 2013: RMB9,735,000). Corresponding cost for share-based payment was RMB4,630,000 (Six months ended 30 June 2013: Nil).

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2014	31 December 2013
Bills receivable	深圳市航天歐華科技發展有限責任公司	64,971	84,312
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	875	610
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	300	120
		66,146	85,042
Trade receivables	深圳市航天歐華科技發展有限責任公司	54,832	5,598
	Zhongxing Development Company Limited	—	52
	上海中興派能能源科技有限公司	28	28
	中興九城網絡科技無錫有限公司	3,848	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	3,001	8,631
	深圳中興創新材料技術有限公司	2	5
	Shenzhen Zhongxing Information Company Limited	—	9
	普興移動通訊設備有限公司	348,208	81,048
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	811	1,031
	Shenzhen Zhongxing Xinyu FPC Company Limited	85	85
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	690	961
	北京協力超越科技有限公司	12	9
	Xi'an Microelectronics Technology Research Institute	9	9
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	178	127
	深圳市中興昆騰有限公司	190	2,936
	上海中興思秸通訊有限公司	8	—
	ZTE Software Technology (Nanchang) Company Limited	116	—
	中興軟件技術(瀋陽)有限公司	2	—
	深圳中興科揚節能環保股份有限公司	20	—
		412,041	102,452

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2014	31 December 2013
Prepayment	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	493	493
	南京中興群力信息科技有限公司	—	186
	Shenzhen Zhongxing Information Company Limited	38	229
	Zhongxing Development Company Limited	14	—
		545	908
Dividend receivable	Shenzhen Yuanxing Technology Co., Ltd	400	400
Other receivables	南京中興和泰酒店管理有限公司	2	2
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	1,856	1,820
	杭州中興發展有限公司	304	304
	Nanjing Piaoxun Network Technology Company Limited	138	22
	北京億科三友科技發展有限公司	5,840	—
	興天通訊技術(天津)有限公司	5,318	—
	Shenzhen Yuanxing Technology Co., Ltd	1,141	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	174	—
	深圳市中興昆騰有限公司	99	—
	北京協力超越科技有限公司	83	—
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	59	—
	ZTE Energy Co., Ltd.	39	—
	Zhongxing Development Company Limited	19	—
	中興九城網絡科技無錫有限公司	53	—
		15,125	2,148
Bills payable	Shenzhen Zhongxing Xinyu FPC Company Limited	3,318	3,588
	南京中興群力信息科技有限公司	150	450
	中興九城網絡科技無錫有限公司	5,624	—
		9,092	4,038

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2014	31 December 2013
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	51,370	56,507
	普興移動通訊設備有限公司	21,674	1,433
	深圳市航天歐華科技發展有限責任公司	7,170	9,170
	中興能源(天津)節能服務有限公司	5,538	5,538
	Shenzhen Aerospace Guangyu Industrial Company Limited	2,000	2,000
	南京中興群力信息科技有限公司	—	150
	中興九城網絡科技無錫有限公司	727	56
	Shenzhen Zhongxing Xinyu FPC Company Limited	13,717	6,649
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	73,314	159,768
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	15,609	24,238
	Zhongxing Xinzhou Complete Equipment Company Limited	183	183
	Shenzhen Zhongxing WXT Equipment Company Limited	327	327
	Shenzhen Zhongxing Information Company Limited	6,534	4,531
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176
	Shenzhen Shenglongfeng Industrial Company Limited	13,104	9,667
	興天通訊技術(天津)有限公司	1,185	—
	上海中興思秸通訊有限公司	2	—
	ZTE Software Technology (Nanchang) Company Limited	39	—
		212,669	280,393
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	深圳市航天歐華科技發展有限責任公司	2	4,858
	普興移動通訊設備有限公司	12,568	1,048
	Xi'an Microelectronics Technology Research Institute	1,628	2
	北京協力超越科技有限公司	155	155
	南京中興群力信息科技有限公司	56	352
	中興軟件技術(瀋陽)有限公司	3	3
	深圳市中興昆騰有限公司	12	—
	ZTE Energy Co., Ltd.	1	—
		19,752	11,745

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	30 June 2014	31 December 2013
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	308	1,308
	深圳中興新源環保股份有限公司	4	—
	上海中興思秸通訊有限公司	70	—
	鄂爾多斯市雲泰互聯科技有限公司	28	—
	深圳市中興昆騰有限公司	130	—
		899	1,667

Amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment.

7. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	30 June 2014	31 December 2013
南京中興和泰酒店管理有限公司	4,122	3,305
上海市和而泰酒店投資管理有限公司	12,241	12,366
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	10,731	8,675
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	6,842	—
	33,936	24,397

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(2) Interest expenses

	Six months ended 30 June 2014	Six months ended 30 June 2013
Wuxi KaiEr Technology Company Limited*	—	9
南京中興和泰酒店管理有限公司	17	11
上海市和而泰酒店投資管理有限公司	48	58
北京億科三友科技發展有限公司	—	20
西安中興和泰酒店管理有限公司	44	2
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	18	—
	127	100

(3) Release of loans and advances — release of loans

	30 June 2014	31 December 2013
北京億科三友科技發展有限公司	—	5,773

(4) Release of loans and advances — discounted bills

	30 June 2014	31 December 2013
Shenzhen Shenglongfeng Industrial Company Limited	22,750	3,174
北京億科三友科技發展有限公司	—	491
	22,750	3,665

All issuers of the aforesaid discounted bills were Group companies. Assets and liabilities arising therefrom have been set off on consolidation of the Group account.

Notes to Financial Statements

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

VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(5) Interest income from loans and bills discounting

	Six months ended 30 June 2014	Six months ended 30 June 2013
Wuxi KaiEr Technology Company Limited*	—	2,261
Shenzhen Shenglongfeng Industrial Company Limited	—	192
北京億科三友科技發展有限公司	110	199
	110	2,652

(6) Interest receivable

	30 June 2014	31 December 2013
北京億科三友科技發展有限公司	—	13

(7) Interest payable

	30 June 2014	31 December 2013
南京中興和泰酒店管理有限公司	—	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
	—	6

Notes to Financial Statements

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

VII. SHARE-BASED PAYMENT

1. Overview

	30 June 2014	31 December 2013
Total amount of employee service in consideration for which share based payments were made	524,023	524,023

Equity-settled share-based payments are as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Accumulated amount of equity-settled share-based payments in capital reserves	111,976	—
Total costs of equity-settled share-based payments in the period	89,120	—

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 the 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.

Notes to Financial Statements

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

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.

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

Notes to Financial Statements

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

VII. SHARE-BASED PAYMENT (CONTINUED)

2. Share incentive scheme (continued)

(2) (continued)

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 during the six months ended 30 June 2014 amounted to RMB89,120,000 (Six months ended 30 June 2013: Nil).

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
Demotion 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.

VIII. CONTINGENT EVENTS

- In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB48,080,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB20,672,000) is to be paid by the Company. As at the balance sheet date, the Company had 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 litigation 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 prolonged period. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid arbitration award.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation. Accordingly, no new provision was made in respect of this litigation for the period.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS (CONTINUED)

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 judgment in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth has appealed to the Nanshan District People's court against the said judgment. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgment of the case of China Construction Fifth Division at the Intermediate Court.

In October and November 2009, the Group further instituted two complaints with the Shenzhen 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 judgment in November 2012 which ruled contract amounts of approximately 14,497,000 together with interests accrued thereon and losses incurred as a result of work suspension amounting to approximately RMB953,000 to be paid by the Company to China Construction Fifth; while RMB20,150,000 withheld by China Construction Fifth together with interests accrued thereon shall be refunded by China Construction Fifth to the Company. Other claims of China Construction Fifth were rejected. China Construction Fifth Division filed an appeal with Guangdong Higher People's Court against the said judgement, and the Guangdong Higher People's Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 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. Case admission fees and authentication fees paid for the first trial and second trials relating to China Construction Fifth Division amounted to RMB2,699,200, of which an amount of RMB653,700 was borne by the Company.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

Notes to Financial Statements

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

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 a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

4. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is able to file a well-founded defense in respect of the litigation.

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. 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.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS (CONTINUED)

5. (continued)

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.), filed a claim with the International Trade Commission ("ITC") and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its 3G patent rights. Defendants in this case included other companies in the industry. In the ITC case, the said four companies demanded the issue of a permanent exclusion and injunction order that would prevent certain of our terminal products from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named.

On 13 June 2014, 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 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents concerned and had not violated Section 337.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

6. On 20 May 2013, ZTE Brazil received a 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 was therefore 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 RMB269 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary 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 primary 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. As at the balance sheet date, the Group had made provisions of BRL5.22 million (equivalent to approximately RMB14.77 million) in respect of this litigation.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently able to reliably estimate the outcome of the litigation. Accordingly, no new provision was made in respect of this litigation for the period.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS (CONTINUED)

7. In May 2012, a U.S. company, 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 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 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. 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 the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

8. In July 2012, a U.S. company, 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, although no specific amount of compensation was named. The litigation procedure at the District Court has been temporarily 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 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 the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

9. In November 2012, ZTE Brazil filed an application with the civil court of Brasilia to freeze the assets of a Brazilian company who failed to honour a purchase payment of approximately BRL31,353,700 (approximately RMB87,440,000). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, ZTE Brazil received a notice from the 15th Civil Court of Sao Paulo, Brazil that the said Brazilian Company had filed a lawsuit with the said court, alleging fraud and negligence on the part of ZTE Brazil during the course of cooperation and demanding compensation with a total amount of approximately BRL82,974,500 (approximately RMB231 million). The Company has appointed a legal counsel to conduct active defense in respect of the aforesaid case.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS (CONTINUED)

10. In October and December 2013, Pragmatius 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 limited exclusion and injunction order against 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.

Based on the legal opinion furnished by the Company's legal counsel and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

11. In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (time switched transmitter diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed the patent and issuing an injunction order against the said UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. As of now, the Court of Mannheim, Germany has yet to make a ruling. As the UMTS products of the Company and ZTE Deutschland sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company and ZTE Deutschland in Germany.

In January 2014, Vringo Infrastructure Inc. ("Vringo") filed a patent litigation with the High Court of Delhi, India against the Company and ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company, pleading for the GSM products of the Company and ZTE India supporting Macro to Micro Handover Algorithm functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the High Court of Delhi, India. In February 2014, the High Court of Delhi, India issued a provisional injunction order against the said GSM products with Macro to Micro Handover Algorithm functions. In April 2014, the Company and ZTE India filed an application to the High Court of Delhi, India for the revocation of the provisional injunction order. As of now, the High Court of Delhi, India has yet to make a ruling. The provisional injunction order affects only the GSM products of the Company and ZTE India supporting Macro to Micro Handover Algorithm functions sold in India.

In April 2014, Vringo filed a patent litigation with the Court of Rio, Brazil against the Company and ZTE Brazil, pleading for the UMTS products of the Company and ZTE Brazil supporting RNC Relocation functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In April 2014, the Court of Rio, Brazil issued a provisional injunction order against the Company and ZTE Brazil in respect of UMTS products supporting RNC Relocation functions. In April 2014, the Company and ZTE Brazil filed an application to the Court of Rio, Brazil for the revocation of the provisional injunction order. In August 2014, the provisional injunction order was revoked by the High Court of Delhi, India.

Notes to Financial Statements

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

VIII. CONTINGENT EVENTS (CONTINUED)

11. (continued)

In March 2014, the Company filed an antitrust litigation with the Intermediate Court of Shenzhen against the alleged abuse of market dominance of Vringo, and the Intermediate Court of Shenzhen has accepted such filing; the Company also filed an application for antitrust investigation to the EU Commission in April 2014 and the EU Commission has accepted such filing. Meanwhile, the Company has also filed litigations in the PRC, Germany, India and Brazil against Vringo for its patent claims to be ruled invalid.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

12. As at 30 June 2014, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,118,979,000 (31 December 2013: RMB7,022,304,000).
13. As at 30 June 2014, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB73,782,000 (31 December 2013: RMB46,311,000).

IX. COMMITMENTS

	30 June 2014	31 December 2013
Capital commitments		
Contracted but not provided for	246,403	264,314
Authorised by the Board but not yet contracted	21,721,741	21,566,513
	21,968,144	21,830,827
Investment commitment		
Contracted but performance not completed	27,804	17,304

X. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014	31 December 2013
Within one year (including first year)	289,161	389,625
In the first to second years (including second year)	164,712	308,149
In the second to third years (including third year)	97,689	184,079
After the third year	186,711	205,126
	738,273	1,086,979

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting

Operating segments

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted total profit from continuing operations is measured consistently with the Group's total profit from continuing operations except that finance expenses, research and development costs, impairment losses, gain 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 payable, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at prevailing market prices.

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Six months ended 30 June 2014				
Segment revenue				
Revenue from telecommunications systems contracts	21,835,700	—	5,436,938	27,272,638
Sales of goods and services	—	10,406,174	18,497	10,424,671
Sub-total	21,835,700	10,406,174	5,455,435	37,697,309
Segment results	5,307,362	163,021	1,303,472	6,773,855
Unallocated revenue				1,912,664
Unallocated cost				(6,435,346)
Finance costs				(507,970)
Loss from changes in fair values				(58,769)
Investment loss from associates and joint ventures				(40,448)
Total profit				1,643,986
Income tax				(472,675)
Net profit				1,171,311
30 June 2014				
Total assets				
Segment assets	38,250,953	12,149,005	9,556,625	59,956,583
Unallocated assets				41,896,295
Sub-total				101,852,878
Total liabilities				
Segment liabilities	9,878,240	841,300	2,467,980	13,187,520
Unallocated liabilities				63,838,834
Sub-total				77,026,354
Supplemental information				
Six months ended 30 June 2014				
Depreciation and amortization expenses	611,974	291,647	152,896	1,056,517
Capital expenditure	895,104	426,577	223,633	1,545,314
Asset impairment losses	661,486	315,243	165,266	1,141,995

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Six months ended 30 June 2013 (restated)				
Segment revenue				
Revenue from telecommunications systems contracts	19,050,466	—	5,957,952	25,008,418
Sales of goods and services	—	12,460,868	35,498	12,496,366
Sub-total	19,050,466	12,460,868	5,993,450	37,504,784
Segment results	4,080,340	254,355	905,770	5,240,465
Unallocated revenue				1,556,652
Unallocated cost				(4,818,454)
Finance costs				(1,370,126)
Loss from changes in fair values				162,888
Investment loss from associates and joint ventures				(29,644)
Total profit				741,781
Income tax				(412,537)
Net profit				329,244
30 June 2013				
Total assets				
Segment assets	37,346,779	13,073,161	11,889,669	62,309,609
Unallocated assets				40,269,193
Sub-total				102,578,802
Total liabilities				
Segment liabilities	10,594,317	1,110,229	3,372,792	15,077,338
Unallocated liabilities				64,725,939
Sub-total				79,803,277
Supplemental information				
Six months ended 30 June 2013				
Depreciation and amortization expenses	402,499	263,273	128,139	793,911
Capital expenditure	579,451	379,018	184,473	1,142,942
Asset impairment losses	469,815	307,304	149,569	926,688

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	Six months ended 30 June 2014	Six months ended 30 June 2013 (Restated)
The PRC	19,259,606	18,750,061
Asia (excluding the PRC)	5,867,677	6,327,118
Africa	2,210,694	3,034,884
Europe, America and Oceania	10,359,332	9,392,721
	37,697,309	37,504,784

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2014	31 December 2013
The PRC	11,528,140	11,486,177
Asia (excluding the PRC)	1,101,766	1,003,837
Africa	270,998	335,313
Europe, America and Oceania	1,085,358	896,663
	13,986,262	13,721,990

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets and deferred tax assets) are located.

Information of key customers

Revenue of telecommunications system contracts and terminal from one major customer amounted to RMB8,663,024,000 (Six months ended 30 June 2013: Revenue from two major customers amounted to RMB9,555,653,000).

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis

The main financial instruments of the group, except for derivatives, include bank loans, cash and bank balances etc. The main purpose of these financial instruments is to financing for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts, with the aim of managing the exchange risk and interest rate risk of the Group's operations.

The main risk which comes from the Group's financial instruments is the credit risk, liquidity risk and market risk.

Classification of financial instruments

The book values of various financial instruments as the balance sheet date were as follows:

30 June 2014

Financial assets

	Financial assets at fair value through profit or loss	Loans and other receivables	Available- for-sale financial assets	Total
Cash	—	17,338,226	—	17,338,226
Financial assets at fair value through profit or loss	366,578	—	—	366,578
Available-for-sale financial assets	—	—	1,513,650	1,513,650
Bills receivable	—	3,519,519	—	3,519,519
Trade receivables and long-term receivables	—	22,096,462	—	22,096,462
Factored trade receivables and factored long-term receivables	—	5,208,503	—	5,208,503
Other receivables (excluding dividends receivable)	—	1,802,317	—	1,802,317
Other non-current assets	—	4,052,311	—	4,052,311
	366,578	54,017,338	1,513,650	55,897,566

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

30 June 2014 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Bank loans	—	17,795,968	—	17,795,968
Financial liabilities at fair value through profit or loss	183,919	—	6,388	190,307
Bills payable	—	9,894,477	—	9,894,477
Trade payables	—	19,719,673	—	19,719,673
Bank advances on factored trade receivables and factored long- term receivables	—	5,242,957	—	5,242,957
Other payables (excluding accruals)	—	6,105,764	—	6,105,764
Bonds payable	—	5,999,387	—	5,999,387
Other non-current liabilities	—	234,022	3,365	237,387
	183,919	64,992,248	9,753	65,185,920

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

31 December 2013

Financial assets

	Financial assets at fair value through profit or loss	Loans and other receivables	Available-for- sale financial assets	Total
Cash	—	20,903,035	—	20,903,035
Financial assets at fair value through profit or 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

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Financial liabilities at fair value through profit or loss	61,659	—	6,120	67,779
Bank loans	—	20,728,630	—	20,728,630
Bills payable	—	8,498,021	—	8,498,021
Trade payables	—	16,492,534	—	16,492,534
Bank advances on factored trade receivables and factored long- term 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

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. 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 and bank balances, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five accounted for 35.31% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group does not hold any collateral or other credit enhancements over the balance of trade receivables.

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, other receivables and long-term receivables as at 30 June 2014 was analysed as follows:

30 June 2014

	Total	Not overdue/not impaired	Overdue for			
			Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years
Trade receivables	21,739,723	2,481,728	17,520,211	1,551,815	185,969	—
Long-term receivables	356,739	356,739	—	—	—	—
Other receivables	1,802,317	—	1,369,192	230,539	108,550	94,036

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Credit risk (continued)

31 December 2013

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1 to 2 years	2 to 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

Liquidity risk

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g., trade receivables, bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, Bonds cum Warrants and other interest-bearing loans. With the exception of the non-current portion of bank borrowings, all borrowings are repayable within one year.

The maturity profile of financial assets and financial liabilities based on undiscounted contract cash flow is summarised as follows:

30 June 2014

Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Indefinite	Total
Financial assets at fair value through profit or loss	—	366,578	—	—	—	—	366,578
Cash	15,750,556	1,587,670	—	—	—	—	17,338,226
Available-for-sale financial assets	—	—	—	—	—	1,513,650	1,513,650
Bills receivable	—	3,519,519	—	—	—	—	3,519,519
Trade receivables and long-term receivables	19,257,995	2,481,728	103,648	21,382	282,181	—	22,146,934
Factored trade receivables and factored long-term receivables	—	3,141,831	780,440	375,242	1,171,757	—	5,469,270
Other receivables (excluding dividends receivable)	1,646,210	156,107	—	—	—	—	1,802,317
Other non-current assets	—	1,043,023	659,171	639,949	1,724,177	—	4,066,320
	36,654,761	12,296,456	1,543,259	1,036,573	3,178,115	1,513,650	56,222,814

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

30 June 2014 (continued)

Financial liabilities

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	13,352,392	2,038,832	2,960,554	72,430	18,424,208
Financial liabilities at fair value through profit or loss	—	190,307	—	—	—	190,307
Bills payable	—	9,894,477	—	—	—	9,894,477
Trade payables	19,719,673	—	—	—	—	19,719,673
Bank advances on factored trade receivables and factored long-term receivables	—	3,141,831	758,915	346,516	1,036,358	5,283,620
Other payables (excluding accruals)	6,105,764	—	—	—	—	6,105,764
Bonds cum warrants	—	6,252,000	—	—	—	6,252,000
Other non-current liabilities	50,000	—	72,086	59,028	160,613	341,727
	25,875,437	32,831,007	2,869,833	3,366,098	1,269,401	66,211,776

31 December 2013

Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Indefinite	Total
Financial assets at fair value through profit or 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

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

31 December 2013 (continued)

Financial liabilities

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	15,508,467	839,379	5,023,976	—	21,371,822
Financial liabilities at fair value through profit or 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 factored long-term receivables	—	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

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and changes 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 current period ended 30 June 2014.

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Capital management (continued)

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:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Interest-bearing bank borrowings	17,795,968	20,728,630
Interest-bearing bonds	5,999,387	6,119,590
Bank advances on factored trade receivables and long-term receivables	5,242,957	5,688,899
Total interest-bearing liabilities	29,038,312	32,537,119
Owner's equity	24,826,524	23,625,689
Total owner's equity and interest-bearing liabilities	53,864,836	56,162,808
Gearing ratio	53.9%	57.9%

Market risk

Market risk refers to the risk of fluctuations in the fair value or future cash flow of financial instruments as a result of changes in market prices. Market risks include mainly interest rate risks and exchange rate risks.

Interest rate risk

Interest rate risk is the risk that the fair value/future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liability bearing interest at floating rates.

On 30 June 2014, 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 1.3% and 7%. In addition, the Group borrowed a USD900 million loan at floating interest rates. The Group intends to enter into interest rate swaps with a nominal principal amount of no more than USD900 million at an appropriate timing as a hedge against the said USD loan, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. As at 30 June 2014, taking into account interest rate swaps for a nominal principal amount of USD100 million (31 December 2013: USD100 million) already executed, approximately 25.81% (31 December 2013: 30%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Interest rate risk (continued)

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit	Increase/ (decrease) shareholders' equity*
For the six months ended 30 June 2014	0.25% (0.25%)	(31,453) 31,453	3,207 (3,207)
For the six months ended 30 June 2013	0.25% (0.25%)	(36,737) 36,737	4,890 (4,890)

* Excluding retained earnings.

Foreign currency risk

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow resulting from changes in foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity of a reasonably possible change in interest rates may lead to the changes in the Group's net profit, with all other variables held constant, as at the balance sheet date.

	Increase/ decrease in US dollars exchange rate	Effect on net profit
Six months ended 30 June 2014		
Weaker RMB against USD	3%	16,921
Stronger RMB against USD	(3%)	(16,921)
Six months ended 30 June 2013		
Weaker RMB against USD	3%	37,241
Stronger RMB against USD	(3%)	(37,241)

	Increase/ decrease in EUR dollars exchange rate	Effect on net profit
Six months ended 30 June 2014		
Weaker RMB against EUR	5%	111,636
Stronger RMB against EUR	(5%)	(111,636)
Six months ended 30 June 2013		
Weaker RMB against EUR	5%	131,987
Stronger RMB against EUR	(5%)	(131,987)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

The 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 determined 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 similar contract terms and characteristics, risk profiles and outstanding term. As at 30 June 2014, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

Notes to Financial Statements

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

X. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. Financial instruments and risk analysis (continued)

Fair value (continued)

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 30 June 2014, the fair value of derivative financial assets represents the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The hierarchy of fair value of the financial instruments is set out in the table below:

Financial instruments measured at fair value:

30 June 2014

	Fair value measurement using			
	Quoted prices in active markets Level 1	Quoted prices in active markets Level 2	Quoted prices in active markets Level 3	Total
Available-for-sale listed equity instruments	76,128	—	—	76,128
Financial assets at fair value through current profit and loss	286,181	—	—	286,181
Derivative financial assets	—	80,397	—	80,397
Financial assets at fair value through current profit and loss	—	(183,919)	—	(183,919)
Derivative financial liabilities	—	(9,753)	—	(9,753)
Hedging instrument	—	—	—	—

Notes to Financial Statements

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

XI. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

	30 June 2014			31 December 2013		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
RMB	15,910,547	1.0000	15,910,547	15,818,279	1.0000	15,818,279
USD	1,952,065	6.2165	12,135,012	2,369,780	6.0969	14,448,309
EUR	366,532	8.4804	3,108,338	346,588	8.4189	2,917,893
Others			929,457			846,006
			32,083,354			34,030,487

Aging analysis of trade receivables:

	30 June 2014	31 December 2013
Within 1 year	24,691,425	24,930,582
1 to 2 years	4,910,198	6,126,670
2 to 3 years	2,577,698	2,553,484
Over 3 years	3,405,363	3,192,083
	35,584,684	36,802,819
Less: Bad debt provision for trade receivables	3,501,330	2,772,332
	32,083,354	34,030,487

	30 June 2014				31 December 2013			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Charge ratio (%)	Amount	Percentage (%)	Amount	Charge ratio (%)
Individually significant and for which bad debt provision has been separately made	462,680	1	462,680	100	455,008	1	455,008	100
Bad debt provision collectively made								
0-6 months	20,413,705	57	—	—	20,944,486	57	—	—
7-12 months	4,277,720	12	138,922	3	3,986,096	11	138,797	3
13-18 months	2,128,133	7	459,038	22	4,292,764	12	544,511	13
19-24 months	2,781,092	8	851,112	31	1,831,038	5	326,279	18
2-3 years	2,564,378	7	550,734	21	2,521,816	7	423,080	17
Over 3 years	2,956,976	8	1,038,844	35	2,771,611	7	884,657	32
	35,122,004	99	3,038,650	9	36,347,811	99	2,317,324	6
	35,584,684	100	3,501,330	10	36,802,819	100	2,772,332	8

Notes to Financial Statements

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

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

1. Trade receivables (continued)

Movements in bad-debt provisions for trade receivables:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write-back	Write-off	
2,772,332	731,614	—	(2,616)	3,501,330

As at 30 June 2014, trade receivables from top five accounts were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	4,648,241	13.06%
Customer 2	3,287,385	9.24%
Customer 3	2,816,197	7.91%
Customer 4	2,200,000	6.18%
Customer 5	2,136,338	6.01%
Total	15,088,161	42.40%

As at 30 June 2014, trade receivables amounting to RMB390,125,000 were due from shareholders holding 5% or more in the voting shares (31 December 2013: RMB86,587,000).

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 RMB1,586,745,000 (31 December 2013: RMB2,084,134,000). Bank advances on factored trade receivables amounts to RMB1,621,199,000 (31 December 2013: RMB2,122,707,000).

2. Other receivables

The aging analysis of other receivables:

	30 June 2014	31 December 2013
Within 1 year	2,346,203	7,176,627
1 to 2 years	1,820,380	2,218,545
2 to 3 years	2,176,945	818,400
Over 3 years	1,049,960	241,061
	7,393,488	10,454,633
Less: Bad debt provision for other receivables	—	—
	7,393,488	10,454,633

Notes to Financial Statements

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

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

2. Other receivables (continued)

As at 30 June 2014, other receivables from top five accounts were as follows:

Customer	Amount	As a percentage of total other receivables
Customer 1	322,750	4.37%
Customer 2	204,350	2.76%
Customer 3	37,480	0.51%
Customer 4	34,558	0.47%
Customer 5	17,039	0.23%
Total	616,177	8.33%

As at 30 June 2014, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2013: Nil).

3. Available-for-sale financial assets

	30 June 2014	31 December 2013
Available-for-sale equity instruments	373,555	373,555

4. Long-term receivables

	30 June 2014	31 December 2013
Loans granted to subsidiaries (Note 1)	4,211,260	4,151,237
Installment payments for the provision of telecommunication system construction projects	407,688	416,717
Less: Bad debt provision for long-term receivables	51,081	50,098
	4,567,867	4,517,856

Note 1: Loans granted to subsidiaries set out above were unsecured, interest-free and not planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Notes to Financial Statements

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

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

4. Long-term receivables (continued)

Movements in bad debt provision for long-term receivables during the period are as follows:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write-back	Write-off	
50,098	983	—	—	51,081

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 RMB1,573,264,000 (31 December 2013: RMB1,968,052,000).

5. Long-term equity investments

		30 June 2014	31 December 2013
Equity method			
Joint ventures	(1)	54,338	55,005
Associates	(2)	341,861	374,183
Cost method			
Subsidiaries	(3)	6,051,188	6,093,653
Less: Provision for impairment in long-term equity Investments	(4)	79,345	92,315
		6,368,042	6,430,526

(1) Joint ventures

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
普興移動通訊設備有限公司	43,500	46,005	550	46,555	33.85%	50.00%	—
江蘇中興微通信信息科技有限公司	9,000	9,000	(1,217)	7,783	50.00%	50.00%	—
		55,005	(667)	54,338			—

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

(2) Associates

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
KAZNURTEL Limited Liability Co	3,988	2,477	—	2,477	49%	49%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	973	(331)	642	30%	30%	—
ZTE Energy Co., Ltd.	300,000	315,822	(30,135)	285,687	23.26%	23.26%	—
思卓中興(杭州)科技有限公司	22,845	19,501	180	19,681	49%	49%	—
上海中興群力信息科技有限公司	2,000	24,851	(2,921)	21,930	40%	40%	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	5,400	5,795	885	6,680	18%	40%	—
北京億科三友科技發展有限公司	6,844	4,764	—	4,764	20%	20%	—
上海中興思裕通訊有限公司	1,292	—	—	—	30%	30%	—
		374,183	(32,322)	341,861			—

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100%	100%	1,500,000
ZTEsoft Technology Company Limited	89,921	89,921	—	89,921	80.1%	80.1%	—
Shanghai Zhongxing Telecom 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%	3,172
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	40,500	—	40,500	70%	70%	—
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	—	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%	—
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. ZTE Indonesia	15,275	15,275	—	15,275	100%	100%	—
Telrise(Cayman) Telecom Limit	—	21,165	(21,165)	—	100%	100%	—
Wistron Telecom AB (research institute in Europe)	2,137	2,137	—	2,137	100%	100%	—
ZTE (Malaysia) Corporation SDN. BHD	496	496	—	496	100%	100%	—
ZTE Holdings (Thailand) Co., Ltd	10	10	—	10	100%	100%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	100%	100%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100%	100%	—
ZTE Corporation Mexico S. DE R.L DE C.V.	42	42	—	42	100%	100%	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100%	100%	—
ZTE Romania S.R.L	827	827	—	827	100%	100%	—
ZTE Telecom India Private Ltd.	335,759	335,759	—	335,759	100%	100%	—
ZTE-Communication Technologies, Ltd.	6,582	6,582	—	6,582	100%	100%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93%	93%	—

Notes to Financial Statements

(Prepared under PRC ASBEs)

Currency: RMB'000

(English translation for reference only)

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

5. Long-term equity investments (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the period
Closed Joint Stock Company TK Mobile (Tajik) ZTE(H.K.) Limited	16,871	16,871	—	16,871	51%	51%	—
Shenzhen ZTE Capital Management Company Limited	853,800	853,800	—	853,800	100%	100%	—
ZTE (Heyuan) Company Limited	16,500	16,500	—	16,500	55%	55%	6,317
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	500,000	500,000	—	500,000	100%	100%	—
ZTE Group Finance Co., Ltd	257,400	278,700	(21,300)	257,400	30%	N/A	—
深圳市百維技術有限公司	1,000,000	1,000,000	—	1,000,000	100%	100%	—
Shenzhen Zhongxing Supply Chain Co., Ltd	16,000	16,000	—	16,000	100%	100%	—
北京中興網捷科技有限公司	28,500	28,500	—	28,500	95%	95%	—
安徽中興通訊傳媒有限責任公司	159,341	159,341	—	159,341	100%	100%	—
深圳市中興高達技術有限公司	300	300	—	300	100%	100%	—
天津中興智聯科技有限公司	45,125	45,125	—	45,125	95%	95%	—
深圳市中興雲服務有限公司	32,600	32,600	—	32,600	100%	100%	—
深圳市中興系統集成技術有限公司	50,000	50,000	—	50,000	100%	100%	—
福建海絲路科技有限公司	30,000	30,000	—	30,000	100%	100%	—
	10,000	10,000	—	10,000	95%	95%	—
	6,093,653	(42,465)	6,051,188				1,511,289

Notes to Financial Statements

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

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

5. Long-term equity investments (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise(Cayman) Telecom Limited	12,970	(12,970)	—
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Shenzhen ZTE Mobile Telecom Co., Ltd	17,657	—	17,657
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (research institute in Europe)	2,030	—	2,030
ZTE Corporation Mexico S. DE R.L DE C.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom 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	(12,970)	79,345

6. Operating revenue and costs

Operating revenue is analysed as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue	27,494,760	28,121,936
Other income	7,327,546	5,141,890
	34,822,306	33,263,826

Notes to Financial Statements

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

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

6. Operating revenue and costs (continued)

Operating cost is analysed as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Costs of sales	30,352,058	29,822,446
Other operating expenses	1,121	382
	30,353,179	29,822,828

For the six months ended 30 June 2014, operating revenue from the top five customers was as follows:

Name of Customer	Amount	As a percentage of operating revenue %
Customer 1	7,897,163	22.68%
Customer 2	3,802,370	10.92%
Customer 3	2,654,768	7.62%
Customer 4	1,878,224	5.39%
Customer 5	567,598	1.63%
	16,800,123	48.25%

Sales to the top five customers of the Group generated revenue of RMB16,800,123,000 for six months ended 30 June 2014 (six months ended 30 June 2013: RMB16,289,848,000), accounting for 48.25% (six months ended 30 June 2013: 48.97%) of the operating revenue of the Group respectively.

Notes to Financial Statements

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

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

7. Investment income

	Six months ended 30 June 2014	Six months ended 30 June 2013
Investment loss from long-term equity investment under equity method	(34,282)	(25,908)
Investment income from long-term equity investment under cost method	1,512,199	1,000,817
Investment income/(loss) from the disposal of trading financial instruments	1,119	(18,451)
Investment income/(loss) arising from the disposal of long term equity investments	(6,852)	792,574
	1,472,184	1,749,032

As at 30 June 2014, the Company was not subject to significant restrictions in remitting its investment income.

8. Supplemental information on the cash flow statement

Reconciliation of net loss to cash flow from operating activities:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Net loss	(242,130)	(719,664)
Add: Impairment losses	943,466	672,444
Depreciation of fixed assets	332,201	324,235
Amortisation of intangible assets and development cost	136,685	125,717
Amortisation of long-term deferred assets	11,642	6,003
Loss on disposal of fixed assets, intangible assets and other long term assets	9,369	3,424
Loss/(profit) from changes in fair value	37,898	(90,033)
Finance expenses	611,115	666,660
Investment income	(1,472,184)	(1,749,032)
Increase in deferred tax assets	(10,029)	(23,572)
Increase in inventories	(3,395,962)	(183,806)
Decrease/(increase) in operating receivables	3,731,311	(9,528,981)
Increase/(decrease) in operating payables	(993,718)	4,445,889
Equity settled share expenses	89,120	—
(Increase)/decrease in cash not readily available for funding payments	(443,210)	397,908
Net cash flows from operating activities	(654,426)	(5,652,808)

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2014
Loss from the disposal of non-current assets	(16,179)
Investment loss from disposal of equity investment	(1,329)
Gain/loss from fair-value change in trading financial assets and trading financial liabilities, and investment loss from disposal of trading financial assets and trading financial liabilities, excluding effective value-protection hedges related to the ordinary business of the Company	(172,492)
Gain/loss from change in fair value of investment properties	77,475
Net amount of other non-operating income and expenses	342,998
Effect of income tax	(34,571)
	195,902

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:

	Six months ended 30 June 2014	Reason
Refund of VAT on software products	1,313,580	In line with national policies and received on an ongoing basis
Refund of individual tax	4,758	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.

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2014

	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share Diluted
Net profit attributable to ordinary shareholders of the Company	4.86%	RMB0.33	RMB0.33
Net profit after extraordinary items attributable to ordinary shareholders of the Company	4.02%	RMB0.27	RMB0.27

Supplementary Information to Financial Statements

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

3. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE (CONTINUED)

30 June 2013 (Restated)

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	1.44%	RMB0.09	RMB0.09
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(3.49%)	RMB(0.22)	RMB(0.22)

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Financial assets at fair value through profit or loss	Mainly attributable to the reclassification of available-for-sale financial assets as trading financial assets
Inventories	Mainly attributable to the stock-up of goods for 4G production during the period
Financial liabilities at fair value through profit or loss	Mainly attributable to loss arising from revaluation of fair value of certain derivative investments at the end of the period.
Amount due to customers for contract works	Mainly attributable to faster progress in certain actual payment receipts for new contracts than progress in revenue resulting from optimisation of certain commercial terms under the contract
Taxes payable	Mainly reflecting the decrease in VAT payable as a result of the increase in input VAT tax
Dividends payable	Mainly reflecting the payment of dividend declared in the previous period by certain subsidiaries during the period.
Non-current liabilities due within one year	Mainly attributable to transfer into bonds due within one year for the period
Bond payable	Mainly attributable to transfer of company bonds into non-current liabilities due within one year for the period

Supplementary Information to Financial Statements

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

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS (CONTINUED)

Income statement items	Analysis of reasons
Taxes and surcharges	Mainly attributable to the increase in income subject to business tax
Finance expenses	Mainly attributable to the exchange gain arising from exchange rate volatility for the period versus exchange loss arising from exchange rate volatility for the same period last year
Gains/losses from changes in fair values	Mainly attributable to the loss arising from revaluation of fair value of certain derivative investments at the end of the period versus revaluation gain for the same period last year
Investment income	Mainly attributable to investment gains resulting from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd during the same period last year and the absence of such transactions for the period
Non-operating expenses	Mainly attributable to the increase in loss on disposal of fixed assets for the period
Non-controlling interests	Mainly attributable to the increase in profit reported by certain subsidiaries for the period
Other comprehensive income	Mainly attributable to the gain in foreign currency translation difference for the period versus loss for the same period last year
Comprehensive income attributable to non-controlling interests	Mainly attributable to the increase in profit reported by certain subsidiaries for the period
Cash flow statement items	Analysis of reasons
Net cash flows from operating activities	Mainly attributable to the increase in cash received for the sales of goods and provision of services and the decrease in cash paid for goods and services purchased for the period
Net cash flows from financing activities	Mainly attributable to the increase in cash paid for debt repayment exceeding the increase in cash received from loan drawdowns for the period
Effect of changes in foreign exchange rate on cash	Mainly attributable to the increase in exchange gains due to exchange rate volatility for the period

Consolidated Statement of Comprehensive Income

(Prepared under HKFRSs)
Six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 (unaudited) RMB'000	Six months ended 30 June 2013 (unaudited) (Restated) RMB'000
Revenue	4	37,697,309	37,504,784
Cost of sales		(26,576,161)	(27,925,083)
Gross profit		11,121,148	9,579,701
Other income and gains	4	2,444,284	2,756,650
Research and development costs		(4,126,546)	(3,627,555)
Selling and distribution expenses		(4,806,361)	(4,740,242)
Administrative expenses		(1,142,763)	(1,084,730)
Other expenses		(1,051,579)	(1,346,295)
Finance costs	6	(753,749)	(766,104)
Share of profits and losses of:			
Joint ventures		(667)	40
Associates		(39,781)	(29,684)
Profit before tax	5	1,643,986	741,781
Income tax expense	7	(472,675)	(412,537)
Profit for the period		1,171,311	329,244
Attributable to:			
Owners of the parent		1,128,206	310,012
Non-controlling interests		43,105	19,232
		1,171,311	329,244
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic		RMB0.33	RMB0.09
Diluted		RMB0.33	RMB0.09
Other comprehensive income			
Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the period		848	7,513
Changes in fair value of available-for-sale investments		(132,607)	60,487
Exchange differences on translation of foreign operations		130,301	(167,838)
Other comprehensive income for the period, net of tax		(1,458)	(99,838)
Total comprehensive income for the period		1,169,853	229,406
Attributable to:			
Owners of the parent		1,127,355	209,879
Non-controlling interests		42,498	19,527
		1,169,853	229,406

Consolidated Statement of Financial Position

(Prepared under HKFRSs)
30 June 2014

	Notes	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Non-current assets			
Property, plant and equipment		7,545,226	7,697,841
Prepaid land lease payments		1,089,212	1,064,021
Intangible assets		3,375,857	3,081,233
Investment properties		1,951,625	1,855,246
Investments in joint ventures		66,224	66,891
Investments in associates		377,647	411,146
Available-for-sale investments		1,513,650	1,630,271
Long-term trade receivables	11	356,739	366,762
Factored long-term trade receivables		2,066,672	2,311,525
Deferred tax assets		1,382,079	1,353,033
Pledged deposits		4,002,311	3,396,897
Other non-current assets		214,447	415,700
Total non-current assets		23,941,689	23,650,566
Current assets			
Prepaid land lease payments		24,342	23,649
Inventories		18,751,630	12,434,352
Amount due from customers for contract works	10	10,380,469	12,137,144
Trade and bills receivables	11	25,259,242	24,893,928
Factored trade receivables		3,141,831	3,338,801
Prepayments, deposits and other receivables		5,832,774	4,874,021
Financial assets at fair value through profit or loss		366,578	217,454
Pledged deposits		1,040,351	708,641
Time deposits with original maturity of over three months		246,695	76,120
Cash and cash equivalents		16,051,180	20,118,274
Total current assets		81,095,092	78,822,384
Current liabilities			
Trade and bills payables	12	29,614,150	24,990,555
Amount due to customers for contract works	10	4,896,879	3,682,564
Other payables and accruals		14,352,500	15,311,007
Interest-bearing bank borrowings		13,128,641	15,342,957
Bank advances on factored trade receivables		3,176,285	3,377,374
Bond payable		5,999,387	—
Tax payable		525,337	557,059
Derivative financial instruments		190,307	67,779
Dividends payable		13,641	34,963
Total current liabilities		71,897,127	63,364,258
Net current assets		9,197,965	15,458,126
Total assets less current liabilities		33,139,654	39,108,692

Consolidated Statement of Financial Position (continued)

(Prepared under HKFRSs)
30 June 2014

	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Total assets less current liabilities	33,139,654	39,108,692
Non-current liabilities		
Derivative financial instruments	3,365	4,286
Interest-bearing bank borrowings	4,667,327	5,385,673
Bank advances on factored long-term trade receivables	2,066,672	2,311,525
Bonds payable	—	6,119,590
Deferred tax liabilities	160,489	139,900
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	95,108	95,806
Other long-term payables	1,316,480	1,422,534
Total non-current liabilities	8,313,130	15,483,003
Net assets	24,826,524	23,625,689
Equity		
Equity attributable to owners of the parent		
Issued capital	3,437,541	3,437,541
Reserves	20,208,456	18,991,981
Proposed final dividend	103,126	103,126
	23,749,123	22,532,648
Non-controlling interests	1,077,401	1,093,041
Total equity	24,826,524	23,625,689

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under HKFRSs)
Six months ended 30 June 2014

	Attributable to shareholders of the parent company										Total equity (unaudited) RMB'000
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share incentive scheme reserve (unaudited) RMB'000	Statutory Reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained Profits (unaudited) RMB'000	Proposed final dividends (unaudited) RMB'000	Total (unaudited) RMB'000	Non- controlling Interests (unaudited) RMB'000	
At 1 January 2014	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
Profit for the period	—	—	—	—	—	—	1,128,206	—	1,128,206	43,105	1,171,311
Other comprehensive income for the period:											
Cash flow hedges	—	—	848	—	—	—	—	—	848	—	848
Changes in fair value of available-for-sale investments	—	(134,447)	—	—	—	—	—	—	(134,447)	1,840	(132,607)
Exchange differences on translation of foreign operations	—	—	—	—	—	132,748	—	—	132,748	(2,447)	130,301
Total comprehensive income for the period	—	(134,447)	848	—	—	132,748	1,128,206	—	1,127,355	42,498	1,169,853
Issue of shares	—	—	—	—	—	—	—	—	—	—	—
Capital reduction by shareholders	—	—	—	—	—	—	—	—	—	(48,990)	(48,990)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(9,148)	(9,148)
Effect of changes of other equity holders' interests in associates by the equity method	—	—	—	—	—	—	—	—	—	—	—
Capital contributions by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—
2013 final dividend declared	—	—	—	—	—	—	—	—	—	—	—
Share incentive scheme											
— Equity-settled share expenses	—	—	—	89,120	—	—	—	—	89,120	—	89,120
— Unlocking the lock-up shares	—	—	—	—	—	—	—	—	—	—	—
Proposed 2013 dividend	—	—	—	—	—	—	—	—	—	—	—
Transfer from capital reserve	—	—	—	—	—	—	—	—	—	—	—
At 30 June 2014	3,437,541	9,345,432	(10,224)	111,976	1,613,195	(913,917)	10,061,994	103,126	23,749,123	1,077,401	24,826,524

	Attributable to shareholders of the parent company (restated)										Total Equity (unaudited) RMB'000
	Issued Capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserves (unaudited) RMB'000	Share incentive scheme reserve (unaudited) RMB'000	Statutory Reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained Profits (unaudited) RMB'000	Proposed final dividends (unaudited) RMB'000	Total (unaudited) RMB'000	Non- controlling Interests (unaudited) RMB'000	
At 1 January 2013	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 period	—	—	—	—	—	—	310,012	—	310,012	19,232	329,244
Other comprehensive income for the period:											
Cash flow hedges	—	—	7,513	—	—	—	—	—	7,513	—	7,513
Exchange differences on translation of foreign operations	—	—	—	—	—	(169,502)	—	—	(169,502)	1,664	(167,838)
Changes in fair value of available-for-sale investments	—	61,856	—	—	—	—	—	—	61,856	(1,369)	60,487
Total comprehensive income for the period	—	61,856	7,513	—	—	(169,502)	310,012	—	209,879	19,527	229,406
Issue of shares	—	—	—	—	—	—	—	—	—	—	—
Capital reduction by shareholders	—	—	—	—	—	—	—	—	—	(48,990)	(48,990)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(63,221)	(63,221)
Effect of changes of other equity holders' interests in associates by the equity method	—	—	—	—	—	—	—	—	—	—	—
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—
Capital contributions by non-controlling shareholders	—	—	—	—	—	—	—	—	—	19,600	19,600
2012 final dividend declared	—	—	—	—	—	—	—	—	—	—	—
Share incentive scheme											
— Equity-settled share expense	—	—	—	—	—	—	—	—	—	—	—
— Unlocking the lock-up shares	—	—	—	—	—	—	—	—	—	—	—
Proposed final 2012 dividend	—	—	—	—	—	—	—	—	—	—	—
Transfer from capital reserve	—	—	—	—	—	—	—	—	—	—	—
At 30 June 2013	3,440,078	9,385,464	(9,343)	—	1,587,430	(752,201)	8,015,034	—	21,666,462	1,063,172	22,729,634

Consolidated Cash Flow Statement

(Prepared under HKFRSs)
Six months ended 30 June 2014

Items	Six months ended 30 June 2014 (unaudited) RMB'000	Six months ended 30 June 2013 (unaudited) RMB'000
Net cash inflow/(outflow) from operating activities	1,038,263	(5,660,633)
Net cash outflow from investing activities	(1,894,547)	(419,801)
Net cash outflow from financing activities	(3,276,674)	(707,027)
Net decrease in cash and cash equivalents	(4,132,958)	(6,787,461)
Cash and cash equivalents at beginning of year	20,118,274	22,659,635
Effect of exchange rate changes, net	65,864	43,517
Cash and cash equivalents at end of period	16,051,180	15,915,691
Analysis of balance of cash and cash equivalents		
Unrestricted bank balances and cash	15,750,556	15,479,489
Time deposits with original maturity of less than three months	300,624	436,202
	16,051,180	15,915,691

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

1. CORPORATE INFORMATION

ZTE Corporation (the “Company”) is a limited liability company established in the People’s Republic of China (the “PRC”).

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the period, the Company and its subsidiaries (collectively referred to as the “Group”) were principally involved in the design, development, manufacture and sale of telecommunications system equipment, mobile end products and solutions.

In the opinion of the directors, in accordance with the Chapter 8 Qualifications for Listing of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”), a limited liability company registered in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

Impact of new and revised HKFRSs and HKASs

Investment Entities (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011))

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under HKFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under HKFRS 10.

Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities (Amendments to HKAS 32)

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting (Amendments to HKAS 39)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Impact of new and revised HKFRSs and HKASs (continued)

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to HKAS 36)

These amendments remove the unintended consequences of HKFRS 13 Fair Value Measurement on the disclosures required under HKAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended 31 December 2013.

HK(IFRIC) – Int 21 Levies

HK(IFRIC) 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., HKAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. These amendments have no impact on the Group.

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

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

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

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

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

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

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Networks RMB'000	Handset terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2014				
Segment revenue:				
Contract revenue from external customers	21,835,700	—	5,436,938	27,272,638
Sale of goods and services	—	10,406,174	18,497	10,424,671
Total	21,835,700	10,406,174	5,455,435	37,697,309
Segment results	5,307,362	163,021	1,303,472	6,773,855
Bank and other interest income				253,587
Dividend income and unallocated gains				2,190,697
Unallocated expenses				(6,779,956)
Finance costs				(753,749)
Share of profits and losses of:				
Joint ventures				(667)
Associates				(39,781)
Profit before tax				1,643,986
30 June 2014				
Segment assets	38,250,953	12,149,005	9,556,625	59,956,583
Investment in joint ventures				66,224
Investment in associates				377,647
Unallocated assets				44,636,327
Total assets				105,036,781
Segment liabilities	9,878,240	841,300	2,467,980	13,187,520
Unallocated liabilities				67,022,737
Total liabilities				80,210,257
Six months ended 30 June 2014				
Other segment information:				
Provision for asset impairment	661,486	315,243	165,266	1,141,995
Depreciation and amortisation	611,974	291,647	152,896	1,056,517
Capital expenditure	895,104	426,577	223,633	1,545,314

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

3. OPERATING SEGMENT INFORMATION (CONTINUED)

	Networks RMB'000	Handset terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2013 (restated)				
Segment revenue:				
Contract revenue from external customers	19,050,466	—	5,957,952	25,008,418
Sale of goods and services	—	12,460,868	35,498	12,496,366
Total	19,050,466	12,460,868	5,993,450	37,504,784
Segment results	4,080,340	254,355	905,770	5,240,465
Bank and other interest income				159,514
Dividend income and unallocated gains				2,597,136
Unallocated expenses				(6,459,586)
Finance costs				(766,104)
Share of profits and losses of:				
Joint ventures				40
Associates				(29,684)
Profit before tax				741,781
30 June 2013				
Segment assets	37,346,779	13,073,161	11,889,669	62,309,609
Investment in joint ventures				46,854
Investment in associates				388,263
Unallocated assets				41,335,226
Total assets				104,079,952
Segment liabilities	10,594,317	1,110,229	3,372,792	15,077,338
Unallocated liabilities				66,227,089
Total liabilities				81,304,427
Six months ended 30 June 2013				
Other segment information:				
Provision for asset impairment	469,815	307,304	149,569	926,688
Depreciation and amortisation	402,499	263,273	128,139	793,911
Capital expenditure	579,451	379,018	184,473	1,142,942

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2014 and 2013 is set out in the following table:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000 (Restated)
The PRC	19,259,606	18,750,061
Asia (excluding the PRC)	5,867,677	6,327,118
Africa	2,210,694	3,034,884
Europe, Americas and Oceania	10,359,332	9,392,721
Total	37,697,309	37,504,784

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000 (Restated)
Revenue		
Telecommunications system contracts	27,272,638	25,008,418
Sale of goods and services	10,424,671	12,496,366
	37,697,309	37,504,784
Other income		
VAT refunds for software products [#]	1,313,580	1,117,154
Bank interest income	253,587	159,514
Exchange gains	198,949	—
Others ^{##}	599,084	439,498
	2,365,200	1,716,166
Gains		
Gains from derivative financial instruments	—	109,144
Fair value gains on investment properties	77,475	53,744
Gains from disposal of equity investment	—	870,095
Dividends received	1,609	7,501
	79,084	1,040,484
	2,444,284	2,756,650

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Others mainly represent government subsidies, gains from contract penalties and other gains.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Cost of goods and services	25,295,240	25,196,409
Depreciation	660,932	481,146
Amortisation of land lease payments	10,289	9,365
Amortisation of intangible assets other than deferred development costs	28,537	57,973
Amortisation of development expenses	356,759	245,427
Provision for bad and doubtful debts*	819,172	627,247
Provision for warranties**	195,170	193,321
Write-down of inventories to net realisable value**	322,823	299,441
Exchange difference, net	—	638,028
Loss on disposal of fixed assets*	16,214	7,171
Equity-settled share expense	89,120	—

* Provision for bad and doubtful debts, loss on disposal of fixed assets are included in "Other expenses" on the face of the consolidated statement of comprehensive income.

** Provision for warranties and Write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

6. FINANCE COSTS

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Interest on bank loans wholly repayable within five years	373,885	366,292
Interest on bonds cum warrants	—	16,998
Interest on bonds payable	131,797	128,666
Total interest expense on financial liabilities not at fair value through profit or loss	505,682	511,956
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	248,067	254,148
	753,749	766,104

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

7. INCOME TAX

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Group:		
Current — Mainland China	390,197	299,836
Current — Overseas	90,935	87,638
Deferred	(8,457)	25,063
Total tax charge for the period	472,675	412,537

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The Company was subject to an enterprise income tax rate of 15% for the years 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

Major subsidiaries operating in China and entitled to concessionary tax rates are as follows:

Xi'an Zhongxing New 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 for the years from 2013 to 2014.

Nanjing Zhongxing New Software Company Limited, a software enterprise established 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 fifth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

ZTE ICT Company Limited was subject to an enterprise income tax rate of 15% for the years 2013–2015 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for the current period as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014.

Shenzhen ZTE Mobile Telecom Co., Ltd 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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% as a national-grade hi-tech enterprise and an IC Design Enterprise under the National Planning Layout for the years 2013 to 2014.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

7. INCOME TAX (CONTINUED)

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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

Shanghai 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 for the years from 2013 to 2014.

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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

Nanjing ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 10% for the current period as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout for the years 2013 to 2014.

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. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% for 2014 as a national-grade hi-tech enterprise entitled to preferential policies under the West China Development Programme.

深圳市中興系統集成技術有限公司, a newly software enterprise established in 2013, is 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 (2012) No. 27. The current year is its first profitable year exempted from tax.

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2014 (Same period in 2013: nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share amount is computed by dividing the net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

Calculations of basic and diluted earnings per share were as follows:

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the parent Company for the period	1,128,206	310,012
	Six months ended 30 June 2014 Shares'000	Six months ended 30 June 2013 Shares'000
Shares		
Weighted average number of ordinary shares of the Company in issue	3,437,541	3,437,541
Diluting effect — weighted average number of ordinary shares	—	—
Adjusted weighted average number of ordinary shares in issue	3,437,541	3,437,541

10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Amount due from customers for contract works	10,380,469	12,137,144
Amount due to customers for contract works	(4,896,879)	(3,682,564)
	5,483,590	8,454,580
Contract costs incurred plus recognized profits to date	45,876,819	41,905,232
Less: Estimated losses	76,087	105,908
Progress billings	40,317,142	33,344,744
	5,483,590	8,454,580

11. TRADE AND BILLS RECEIVABLES

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

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

11. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 6 months	20,250,504	19,962,075
7 to 12 months	3,627,693	2,695,215
1 to 2 years	1,551,815	2,407,100
2 to 3 years	185,969	196,300
Over 3 years	—	—
	25,615,981	25,260,690
Less: current portion of trade and bills receivables	(25,259,242)	(24,893,928)
Long-term portion	356,739	366,762

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
The controlling shareholder	1,686	1,031
Joint ventures	348,208	81,048
Associates	6,973	10,553
Other related companies	121,320	94,862
	478,187	187,494

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

12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payable as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 6 months	28,900,147	24,351,477
7 to 12 months	218,511	144,334
1 to 2 years	59,904	181,730
2 to 3 years	177,747	258,957
Over 3 years	257,841	54,057
Total	29,614,150	24,990,555

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

12. TRADE AND BILLS PAYABLES (CONTINUED)

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
The controlling shareholder	51,370	56,507
Associates	7,538	56
Other related companies	162,853	227,868
Total	221,761	284,431

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

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

13. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the Group's financial statements were as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Guarantees given to banks in connection with borrowing to customers	73,782	46,311
Guarantees given to banks in respect of performance bonds	7,118,979	7,022,304
	7,192,761	7,068,615

- (b) In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB48,080,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB20,672,000) is to be paid by the Company. As at the balance sheet date, the Company had 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 litigation against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the litigation is likely to continue for a prolonged period. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid arbitration award.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation. Accordingly, no new provision was made in respect of this litigation for the period.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

13. CONTINGENT LIABILITIES (CONTINUED)

- (c) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court 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 has 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 and 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 filed an appeal with Guangdong Higher People's Court against the said judgement, and the Guangdong Higher People's Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 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. Case admission fees and authentication fees paid for the first trial and second trials relating to China Construction Fifth Division amounted to RMB2,699,200, of which an amount of RMB653,700 was borne by the Company.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not in a position to reliably estimate the outcome of the litigation.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

13. 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 a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

- (e) On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the current progress of the case, the Company is able to file a well-founded defense in respect of the litigation.

- (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 the Company and ZTE USA, Inc. ("ZTE USA"), a wholly-owned subsidiary of the Company. 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.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

13. CONTINGENT LIABILITIES (CONTINUED)

(f) (continued)

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. On 13 June 2014, 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 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents concerned and had not violated Section 337.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

(g) 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 RMB269 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary 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 primary 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 secondary administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the secondary administrative court under the tax bureau of Sao Paulo State. As at the balance sheet date, the Group had made provisions of BRL5.22 million (equivalent to approximately RMB14.77 million) in respect of this litigation.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently able to reliably estimate the outcome of the litigation. Accordingly, no new provision was made in respect of this litigation for the period.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

13. CONTINGENT LIABILITIES (CONTINUED)

- (h) 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 Company is currently not in a position to reliably estimate the outcome of the litigation.

- (i) 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 District Court, 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 District Court 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 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 Company is currently not in a position to reliably estimate the outcome of the litigation.

- (j) In November 2012, ZTE Brazil filed an application with the civil court of Brasilia to freeze the assets of a Brazilian company who failed to honour a purchase payment of approximately BRL31,353,700 (approximately RMB87,440,000). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, ZTE Brazil received a notice from the 15th Civil Court of Sao Paulo, Brazil that the said Brazilian Company had filed a lawsuit with the said court, alleging fraud and negligence on the part of ZTE Brazil during the course of cooperation and demanding compensation for its direct and indirect losses with a total amount of approximately BRL82,974,500 (approximately RMB231 million). The Company has appointed a legal counsel to conduct active defense in respect of the aforesaid case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

13. CONTINGENT LIABILITIES (CONTINUED)

- (k) 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 limited exclusion and injunction order against 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.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the current progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

- (l) In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (time switched transmitter diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed the patent and issuing an injunction order against the said UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. As of now, the Court of Mannheim, Germany has yet to make a ruling. As the UMTS products of the Company and ZTE Deutschland sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company and ZTE Deutschland in Germany.

In January 2014, Vringo Infrastructure Inc. ("Vringo") filed a patent litigation with the High Court of Delhi, India against the Company and ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company, pleading for the GSM products of the Company and ZTE India supporting Macro to Micro Handover Algorithm functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the High Court of Delhi, India. In February 2014, the High Court of Delhi, India issued a provisional injunction order against the said GSM products with Macro to Micro Handover Algorithm functions. In April 2014, the Company and ZTE India filed an application to the High Court of Delhi, India for the revocation of the provisional injunction order. In August 2014, the provisional injunction order was revoked by the High Court of Delhi, India.

In April 2014, Vringo filed a patent litigation with the Court of Rio, Brazil against the Company and ZTE Brazil, pleading for the UMTS products of the Company and ZTE Brazil supporting RNC Relocation functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In April 2014, the Court of Rio, Brazil issued a provisional injunction order against the Company and ZTE Brazil in respect of UMTS products supporting RNC Relocation functions. In April 2014, the Company and ZTE Brazil filed an application to the Court of Rio, Brazil for the revocation of the provisional injunction order. As of now, the Court of Rio, Brazil has yet to make a ruling. The provisional injunction order affects only the UMTS products of the Company and ZTE Brazil supporting RNC Relocation functions sold in Brazil.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

13. CONTINGENT LIABILITIES (CONTINUED)

(l) (continued)

In March 2014, the Company filed an antitrust litigation with the Intermediate Court of Shenzhen against the alleged abuse of market dominance of Vringo, and the Intermediate Court of Shenzhen has accepted such filing; the Company also filed an application for antitrust investigation to the EU Commission in April 2014 and the EU Commission has accepted such filing. Meanwhile, the Company has also filed litigations in the PRC, Germany, India and Brazil against Vringo for its patent claims to be ruled invalid.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not in a position to reliably estimate the outcome of the litigation.

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 48 years.

At 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within one year	289,161	389,625
In the second to fifth years, inclusive	381,479	639,658
After five years	67,633	57,696
	738,273	1,086,979

15. COMMITMENTS

Capital commitment

	30 June 2014 RMB'000	31 December 2013 RMB'000
Contracted, but not provided for:		
Land and buildings	246,403	264,314
Investments in associates	27,804	17,304
	274,207	281,618
Authorised, but not contracted for:		
Land and buildings	21,721,741	21,566,513

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

16. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

	Notes	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	125,166	92,496
Sales of finished goods	(b)	1,964	952
Rental expense	(c)	4,414	4,414
Associates:			
Purchase of raw materials	(a)	30,517	38,651
Sales of finished goods	(b)	28,443	2,028
Rental income	(e)	4,178	4,376
Interest expense	(f)	18	29
Interest income	(f)	110	2,460
Joint ventures:			
Sales of finished goods	(b)	340,834	27,959
Rental income	(e)	129	39
Entities controlled by key management personnel of the Group:			
Purchase of raw materials	(a)	386,390	164,615
Sales of finished goods	(b)	44	3
Rental income	(e)	1,073	1,073
Rental expense	(d)	22,867	21,355
Entities controlled by the controlling shareholder:			
Purchase of raw materials	(a)	123,707	137,351
Sales of finished goods	(b)	1,122	1,674
Rental income	(e)	216	549

In the opinion of the directors, the above related party transactions were conducted in the ordinary course of business.

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKFRSs)
30 June 2014

16. RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (Continued)

Notes:

- (a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.
- (b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.
- (c) The housing rental expense was charged at rates of RMB40 per square metre per month and RMB200 per car parking space per month.
- (d) The housing rental expense was charged at rates of RMB130 per square metre per month. The rental expense for car parking space was RMB150 per ground level car parking space and RMB500 per underground car parking per month.
- (e) The rental income was earned from RMB34 to RMB143.17 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) Compensation of key management personnel of the Group

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Short-term employee benefits	15,469	9,735

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 August 2014.

Documents Available for Inspection

- (I) Text of the 2014 interim report signed by the Chairman of the Board of Directors;
- (II) Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2014 prepared under the PRC ASBEs and HKFRSs, respectively, and duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
- (III) Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn>;
- (IV) Articles of Association.

By order of the Board
Hou Weigui
Chairman

21 August 2014

