中兴通讯股份有限公司
ZTE CORPORATION

Annual Report 2012

Stock Code : 000063.SZ | 763.HK

Important

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

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

This report has been considered and approved at the Fortieth Meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons, and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Xie Weiliang, Vice Chairman, was unable to attend the Meeting due to work reasons, and has authorised Mr. Dong Lianbo, Director, to vote on his behalf. Mr. Zhang Junchao, Director, was unable to attend the Meeting due to work reasons, and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Shi Lirong, Director, was unable to attend the Meeting due to work reasons, and has authorised Mr. Yin Yimin, Director, to vote on his behalf.

The respective financial statements of the Group for the year ended 31 December 2012 were prepared in accordance with PRC Accounting Standards for Business Enterprises and with Hong Kong Financial Reporting Standards respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors' report has been issued by each of them.

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

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

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

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

Contents

Reminder of Significant Risks

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

Definitions

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

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

Definitions

"Changfei"	Shenzhen Changfei Investment Company Limited
"Zhongxing Development"	Zhongxing Development Company Limited (formerly "Shenzhen Zhongxing Development Company Limited" and renamed "Zhongxing Development Company Limited".)
"Zhongxing Hetai"	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
"ZTE Special Equipment"	Shenzhen ZTE Special Equipment Company Limited
"CCBI"	CCB International (Shenzhen) Investment Co., Ltd.
"Guangdong All Access"	Guangdong All Access Noter Communication Technology Co., Ltd.
"China All Access"	China All Access (Holdings) Limited
"Ocean Delight"	Ocean Delight Investments Limited
"ZNV"	Shenzhen ZNV Technology Co., Ltd.
"CCT"	Congo Chine Telecom S.A.R.L.
"CDB"	China Development Bank Corporation
"ZTE ITS"	ZTE ITS LTD. (Wuxi)
"Juxian"	Shenzhen Juxian Investment Co., Ltd.
"Zhongxing Microelectronics"	Shenzhen Zhongxing Microelectronics Technology Company Limited
"Guangdong New Pivot"	Guangdong New Pivot Technology & Service Company Limited
"Nationz Technologies"	Nationz Technologies, Inc.
"Jufei"	Shenzhen Jufei Optoelectronics Co., Ltd.
"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
"Zhongxing Xindi"	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited
"Zhongxing Xinyu"	Shenzhen Zhongxing Xinyu FPC Company Limited
"Zhongxing Xinzhou"	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited
"Mobi Antenna"	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
"Huatong"	Huatong Technology Company Limited
"Nanchang Software"	Zhongxing Software Technology (Nanchang) Company Limited
"Chongqing Zhongxing Development"	Chongqing Zhongxing Development Company Limited
"Lead"	Shenzhen Lead Communications Company Limited
"Ruide"	Shenzhen Ruide Electronic Industrial Company Limited
"ZTE Group Finance"	ZTE Group Finance Co., Ltd.
"BOCHK"	Bank of China (Hong Kong) Limited
"ZTE France"	ZTE France SASU

Glossary

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

2G	Second-generation mobile networks utilizing digital wireless technology to provide larger network capacity, improved voice quality and encryption and seamless international roaming for users. Existing mobile communications networks are mainly 2G GSM and CDMA utilizing GSM, GPRS and IS-95B technology for CDMA with a data supply capacity of up to 115.2Kbps, or 384Kbps in case of GSM featuring EDGE technology.
3G	Third-generation mobile networks supporting peak data rates of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps in fixed locations, although some initial deployments were configured to support just 64Kbps. ITU coordinates 3G standards through its IMT-2000 project and key standardization organizations such as 3GPP and 3GPP2.
4G	IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, supporting theoretical download rates of 1Gbit/s in fixed locations and 100Mbit/s in motion.
GSM	A global system for cellular mobile communications originated in Europe, which has been deployed in more than 170 countries using TDMA radio propagation technology.
CDMA	Code division multiple access, one of the technology standards for 2G mobile communications. It is a spread spectrum technology standard that assigns a pseudo-noise (PN) code to all voice and data bits, sends a scrambled transmission of the encoded voice over the air and reassembles the voice in its original format. By assigning a unique correlating code to each transmitter, several simultaneous conversations can share the same frequency allocations.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed by China to support voice and data transmission.
LTE	LTE (Long Term Evolution) refers to the long-term evolution of 3G technology with OFDM as the core technology, and is regarded as 4G in the making. LTE is being promoted by 3GPP and its major performance targets include maximum speeds of 100Mbps (download) and 50Mbps (upload) using 20MHz bandwidth. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division.
SDR platform	Software Defined Radio, a technology where different modes and protocols are implemented by modifications in software and configuration without hardware replacement. The SDR technology provides solutions to a multi-mode, multi-frequency and scalable wireless system. The SDR platform is a new-generation multi-mode, multi-frequency and scalable wireless technology platform developed by ZTE.

Glossary

UPP platform	Unified Packet Platform, a future oriented platform for medium- to high-end products developed by ZTE using IP packet as core technology. It supports a wide range of medium-to high-end products in various product lines such as bearer networks and core networks and raises the start-up thresholds of various products through standardisation and shared core components for better R&D efficiency and product competitiveness. It supports two in-depth measurements to satisfy general application requirements of carriers and corporate users.
V4 platform	A new-generation system platform designed and developed by ZTE to meet market demands for new-generation core network products, wireless base station controllers, services and wireline products. Its software is based on a sound framework with high availability of middleware and its hardware has been improved based on ATCA architecture.
ATCA platform	Advanced Telecom Computing Architecture, an advanced telecom computing structure announced by PICMG (PCI Industrial Computer Manufacturers Group) in 2002 to provide a standardised platform system architecture for telecom-grade applications. It is being extensively used in the telecommunications industry.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
Wireless multiple network fusion	The fusion of wireless technologies with different protocols and systems to achieve maximum network operating efficiency and consistency in terminal-users' experience. This includes the fusion of 2G, 3G, LTE and WLAN at the system equipment level and the terminal level.
Cloud Radio	Cloud Radio is an innovative radio solution capable of automatic selection of optimal synchronisation modes based on the properties of the mobile networks and mobile bearer conditions. It can effectively reduce inter-cell interference in LTE networks and significantly boost network performance in the cell edge.
Smart pipe	Relative to the "dummy pipe," the smart pipe facilitates optimisation of internet traffic flow through technologies such as flow sensor, classification and control, etc to enhance users' experience and deliver added value.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection at any time, any location and among any objects. It can help to realize the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
Cloud Computing	A concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and scheduling of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.

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

Company Profile

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

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

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

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the international telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its various telecommunications products in China with longstanding business ties with China's leading telecommunications service providers such as China Mobile, China Telecom and China Unicom. With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers in more than 140 countries and regions, making contributions to facilitate communications via multiple means, such as voice, data, multi-media, wireless broadband and cable broadband, for users all over the world.

Corporate Information

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Hou Weigui
3	Secretary to the Board of Directors/ Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong Cao Wei
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	fengjianxiong@zte.com.cn
4	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	fengjianxiong@zte.com.cn
	Principal place of business in Hong Kong	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
5	Authorised representatives	Shi Lirong Feng Jianxiong

Corporate Information

6	Newspapers designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, People's Republic of China
7	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **Bonds cum Warrants** Shenzhen Stock Exchange Abbreviated name of bond: 中興債1 Bond code: 115003 Maturity on 30 January 2013 **Corporate Bonds** Shenzhen Stock Exchange Abbreviated name of bond: 12中興01 Bond code: 112090 **H shares** Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Room 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building, Beijing, People's Republic of China
	As to Hong Kong law	Paul Hastings 21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong

10	Auditors	
	PRC	Ernst & Young Hua Ming LLP (In August 2012, Ernst & Young Hua Ming Changed its name to Ernst & Young Hua Ming LLP upon its conversion from a sino-foreign co-operative joint venture into a limited liability partnership.) 21/F, China Resources Building, 5001 Shennan Dong Road, Shenzhen, Guangdong Province, People's Republic of China Signing Accountants: Li Yuxing, Fu Jie
	Hong Kong	Ernst & Young 22/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong
11	Other relevant information	
	Initial registration	
	Date of registration	11 November 1997
	Registered address	6/F, Building 710 Lian Tang Pengji Industrial Park Luohu District, Shenzhen, Guangdong Province, People's Republic of China
	Licence registration number	27939873-X
	Tax registration	44030327939873X
	Entity code (previously "Corporate Legal Person Code")	27939873-X
	As at the end of the year	
	Date of registration	3 November 2011
	Registered address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China
	Licence registration number	440301103852869
	Tax registration	44030127939873X
	Entity code	27939873-X

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

Chairman's Statement

DEAR SHAREHOLDERS,

I am hereby presents the annual report of the Group for the year ended 31 December 2012, and would like to express, on behalf of the Board of Directors, our sincere gratitude to all shareholders for their concern and support for ZTE.

The Group registered a decline in its overall operating revenue for 2012 as compared to 2011, which was attributable to the combined effects of, among others, postponed execution of certain systems contracts and decrease in revenue from terminals in the domestic market, and delayed progress of certain international projects. Meanwhile, the Group also reported a lower overall gross profit margin as compared to that of 2011, reflecting a larger number of low-margin contracts in Africa, South America, Asia and the domestic market recognized for 2012. The Group's operating results, business development and prospects are discussed as follows:

OPERATING RESULTS

The Group's operating revenue for 2012 amounted to RMB84.22 billion, representing a year-on-year decline of 2.4%, while net profit attributable to shareholders of the listed company decreased 237.9% to RMB-2.84 billion. Basic earnings per share amounted to RMB-0.83. The Group's operating revenue from the domestic market and the international market amounted to RMB39.56 billion and RMB44.66 billion, respectively.

Our unfavourable operating results in 2012 was primarily attributable to our adoption of a rather aggressive marketing strategy for fast breakthroughs of some of our key operators and markets, as well as the lack of rapid realignments in enhancing certain aspects, such as management efficiency and risk control, in response to changes in industry competition.

BUSINESS DEVELOPMENT

There was a slowdown in investments in equipment by the global telecommunications industry in 2012, although performances varied from region to region. Developments in the wireless network were underpinned by the gradual phasing-out of 2G networks, ongoing optimisation and upgrade of 3G networks and the gradual deployment of 4G networks. In connection with the wireline network, the construction of high-speed broadband access networks around the world continued to advance, such that the increase in data traffic over wireless networks combined with the acceleration of broadband access has started the construction of transmission networks.

In 2012, the Group worked in close tandem with the technological choices and network construction plans of carriers to capitalise on opportunities in the domestic market presented by large-scale 3G construction, the start of the construction of 4G commercial experimental networks and the Broadband China strategy. Internationally, the Group continued to focus on in-depth business development and operation in major populous nations and with major global carriers, while vigorously establishing its presence in the market for government and enterprise networks.

In 2012, the Group facilitated processes and systems optimization, expenditure controls and operating efficiency enhancement through a series of measures.

CORPORATE GOVERNANCE

In 2012, the Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with the requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Hong Kong Listing Rules and relevant laws and regulations. During the year under review, the Company made adjustments to its cash dividend distribution policy, formulated deliberation reports on planning for shareholders' return and amended provisions of the Articles of Association relating to cash dividend distribution in accordance with relevant requirements issued by CSRC and taking into account its actual conditions. The Company has also revised its Articles of Association and Rules of procedure for Board of Directors Meetings to augment the corporate governance functions of the Board of Directors in accordance with the latest requirements on corporate governance of listed companies under the Hong Kong Listing Rules. Taking into account feasibility in actual operations, the Company has updated its System of Registration of Owners of Inside Information to further regulate the administration of inside information. The "Report on the 2012 Internal Control Work Plan" has been formulated to affirm the key tasks in internal control and completion plans in 2012. Through the aforesaid measures, our corporate governance systems and regimes have been further improved.

CORPORATE SOCIAL RESPONSIBILITY

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

FUTURE PROSPECTS

In 2013, in connection with wireless networks, the rapid development of the Mobile Internet will drive the optimisation and upgrade of 3G networks and the commercial deployment of 4G networks. In connection with wireline networks, broadband markets around the world in varied stages of development are enjoying thriving development to fulfil the services requirements of users. Policies relating to the broadband strategy adopted by various countries will continue to drive broadband construction, while increased data flow over wireless and wireline networks will present development opportunities for transmission networks. Meanwhile, smart terminals will remain in the fast track for development given the continuous penetration of the Mobile Internet and the growing variety of mobile applications. Moreover, the ability to provide integrated solutions and forge stable, long-term partnerships will be crucial given changing requirements of major carriers. In this regard, the Group has cooperated with mainstream international carriers on all fronts on the back of its globally competitive product solutions.

FOCUS OF THE GROUP FOR 2013

In 2013, the Group will make dedicated efforts in product innovation and solution operations with an emphasis on mainstream products, while endeavouring to enhance its R&D efficiency, implement in greater depth the strategy on populous nations and mainstream carriers, focus on markets in which it claims dominance, and vigorously develop business in the government and enterprise and services sectors. Meanwhile, we will continue to exercise expenditure controls and enhance operating efficiency.

Hou Weigui
Chairman

Shenzhen, the PRC

28 March 2013

Major Events of the Group

2012

February	2012	Launch of Era, ZTE's ultra-thin quad-core smart phone
March	2012	Ranked the first among enterprises in the world in terms of international patent filings in 2011
April	2012	Assisted Bharti, India's largest mobile telecommunications operator, to deploy the South Asia's first commercial TD-LTE network
May	2012	Signed a strategic cooperation agreement with Hi3G of Sweden
June	2012	Major breakthrough in the on-site experiment of ZTE's 400G/1T optical transmission in Europe
June	2012	Became the first company to launch the prototypes of 400G and 1T DWDM equipment oriented to all network layers
July	2012	Secured lion's share in China Telecom's 2012 centralised procurement for new, high-end data communications products
October	2012	Won a tender for 13000 carrier frequencies in China Mobile's TD-LTE bidding project, making ZTE the largest LTE equipment supplier of China Mobile
October	2012	Awarded the Best Broadband Partner Award 2012 from BBWF
October	2012	ZTE smartphone handsets ranked 4th in global shipments for the 3rd quarter
December	2012	Assisted China Mobile Hong Kong to launch the first TD-LTE/FDD-LTE converged network in Asia

Highlights of accounting and financial indicators

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

Unit: RMB in millions

Item	Amount for 2012
Operating revenue	84,219.4
Operating profit	(5,002.2)
Total profit	(1,983.2)
Net profit attributable to shareholders of the listed company	(2,841.0)
Net profit after extraordinary items attributable to shareholders of the listed company	(4,190.6)
Net cash flow from operating activities	1,550.0

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

Unit: RMB in millions

Item	Amount for 2012
Non-operating income	559.6
Losses from fair value change	(107.4)
Investment gains	1,197.7
Less: Gains/losses arising from the disposal of non-current assets	19.4
Less: Other non-operating expenses	42.8
Less: Effect of income tax	238.1
Total	**1,349.6**

Highlights of accounting and financial indicators

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

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

Item	For the year ended 31 December 2012	For the year ended 31 December 2011	Year-on-year change	For the year ended 31 December 2010
Basic earnings per share (RMB/share) Note 1	**(0.83)**	0.61	(236.07%)	0.98
Diluted earnings per share (RMB/share) Note 2	**(0.83)**	0.61	(236.07%)	0.96
Basic earnings per share after extraordinary items (RMB/share) Note 1	**(1.22)**	0.31	(493.55%)	0.82
Weighted average return on net assets (%)	**(12.43%)**	8.74%	Decreased by 21.17 percentage points	15.32%
Weighted average return on net assets after extraordinary items (%)	**(18.34%)**	4.53%	Decreased by 22.87 percentage points	12.88%
Net cash flow from operating activities per share (RMB/share) Note 3	**0.45**	(0.53)	184.91%	0.28

Item	As at 31 December 2012	As at 31 December 2011	Year-on-year change	As at 31 December 2010
Net asset per share attributable to shareholders of the listed company (RMB/share) Note 3	**6.26**	7.06	(11.33%)	6.87
Gearing ratio (%)	**78.93%**	75.05%	Increased by 3.88 percentage points	70.34%

Note 1: Basic earnings per share for the reporting period was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. Basic earnings per share for 2011 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up. Basic earnings per share for 2010 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 62,407,186 restricted shares remaining in lock-up, and have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company;

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

Note 3: Net cash flow from operating activities per share and net asset per share attributable to shareholders of the listed company for 2012 were calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. The corresponding indicators for 2011 were calculated on the basis of the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up. The corresponding indicators for 2010 was calculated on the basis of the total share capital at the end of the period less 62,407,186 restricted shares remaining in lock-up and have been restated to reflect the implementation of the 2010 profit distribution and capitalisation of capital reserve plans of the Company.

Highlights of accounting and financial indicators

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

Unit: RMB in millions

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

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

Unit: RMB in millions

	Year ended 31 December				
Results	2012	2011	2010 (Restated)	2009	2008
Revenue	**84,219.4**	86,254.5	69,906.7	60,272.6	44,293.4
Cost of sales	**(65,545.5)**	(62,086.4)	(48,241.8)	(41,667.8)	(29,911.5)
Gross profit	**18,673.9**	24,168.1	21,664.9	18,604.8	14,381.9
Other income and revenue	**4,508.7**	3,664.4	2,639.8	1,723.5	1,295.7
Research and development expenses	**(8,829.2)**	(8,492.6)	(7,092.0)	(5,781.6)	(3,994.1)
Selling and distribution costs	**(11,340.9)**	(11,112.2)	(8,890.2)	(7,157.8)	(5,401.0)
Administrative expenses	**(2,449.2)**	(2,605.6)	(2,524.0)	(2,735.2)	(2,190.0)
Other expenses	**(706.1)**	(1,684.1)	(753.8)	(603.2)	(1,159.7)
Profit from operating activities	**(142.8)**	3,938.0	5,044.7	4,050.5	2,932.8
Finance costs	**(1,888.5)**	(1,374.2)	(728.6)	(751.7)	(690.2)
Share of profit and loss of jointly controlled entities and associates	**48.1**	71.3	44.1	26.0	19.9
Profit before tax	**(1,983.2)**	2,635.1	4,360.2	3,324.8	2,262.5
Tax	**(621.4)**	(392.0)	(883.7)	(629.1)	(350.6)
Profit before minority interests	**(2,604.6)**	2,243.1	3,476.5	2,695.7	1,911.9
Attributable to:					
Minority interests	**(236.3)**	(182.9)	(226.3)	(237.6)	(251.7)
Attributable to:					
Shareholders of parent company	**(2,840.9)**	2,060.2	3,250.2	2,458.1	1,660.2

Unit: RMB in millions

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

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

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

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

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

(V) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR 2012 AND AS AT 31 DECEMBER 2012 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSS.

Report of the Board of Directors

The Board of Directors hereby presents its audited operating results report together with the financial statements of the Group for the year ended 31 December 2012.

BUSINESS OF THE GROUP

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

FINANCIAL RESULTS

Please refer to page 153 and page 314 of this report for the results of the Group for the year ended 31 December 2012 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 19–22 of this report are the results and financial position summary of the Group for the three financial years ended 31 December 2012 prepared in accordance with the PRC ASBEs.

Set out on pages 22–23 of this report are the results and financial position of the Group for the five financial years ended 31 December 2012 prepared in accordance with HKFRSs, which have been extracted from the respective financial statements of the Group for each of the five financial years ended 31 December 2008, 2009, 2010, 2011 and 2012 prepared in accordance with HKFRSs.

(I) Business Review for 2012

1. Overview of the domestic telecommunications industry for 2012

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

2. Overview of the global telecommunications industry for 2012

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

3. Operating Results of the Group for 2012

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

1) By market

The domestic market

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

The international market

For the year under review, the Group reported operating revenue of RMB44.66 billion from the international market, accounting for 53.0% of the Group's overall operating revenue. The Group continued to focus on in-depth business development and operation in major populous nations and with mainstream global carriers and to enhance the capabilities for long-term sustainable development. Meanwhile, the Group was also vigorously establishing its presence in the market for government and enterprise networks, leveraging opportunities presented by in-depth development in informatisation by the government and enterprise customers.

2) By product

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

Carriers' networks

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

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

Report of the Board of Directors

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

Terminals

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

Telecommunications software systems, services and other products

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

(II) Discussion and analysis prepared under PRC ASBEs

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

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

Unit: RMB in millions

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

The Group reported RMB84,219.4 million in operating revenue for 2012, dropping 2.36% as compared with last year. Operating revenue generated from the domestic business amounted to RMB39,556.1 million, which was stable compared with last year, while there was a decline in operating revenue generated from the international business, decreasing by 4.48% to RMB44,663.3 million. Analysed by product segment, year-on-year decline was reported for carriers' networks and terminals, while growth was reported for telecommunications software systems, services and other products.

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

Report of the Board of Directors

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

Unit: RMB in millions

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' networks	41,602.7	29,677.1	28.67%
Terminals	25,838.8	21,498.7	16.80%
Telecommunication software systems, services and other products	16,777.9	12,915.7	23.02%

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

Unit: RMB in millions

		2012		2011		
Industry	Item	Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	Year-on-year increase/ decrease
Manufacturing of communication equipment	Raw materials	**52,876.3**	**82.50%**	49,741.9	82.69%	6.30%
	Engineering costs	**10,283.4**	**16.04%**	9,536.6	15.85%	7.83%
	Total	**63,159.7**	**98.54%**	59,278.5	98.54%	6.55%

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

Unit: RMB in millions

Item	2012	2011	Year-on-year increase/ decrease
Selling and distribution expenses	**11,180.6**	10,953.2	2.08%
General and administrative expenses	**2,281.5**	2,431.7	(6.18%)
Finance expenses	**2,331.2**	2,356.3	(1.07%)
Income tax	**621.4**	392.0	58.52% Note
Research and development expenses	**8,829.2**	8,492.6	3.96%

Note: Attributable mainly to the increase in profit for certain subsidiaries and the year-on-year decrease in deferred income tax assets derived from deductible losses.

The Group's research and development expenses for 2012 accounted for 41.06% and 10.48%, respectively, of the Group's net assets attributable to shareholders of the listed company and operating revenue.

5. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	2012	2011	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**95,491.5**	88,790.8	7.55%
Sub-total of cash outflows from operating activities	**93,941.5**	90,603.0	3.68%
Net cash flows from operating activities	**1,550.0**	(1,812.2)	185.53%Note 1
Sub-total of cash inflows from investing activities	**2,411.4**	2,291.4	5.24%
Sub-total of cash outflows from investing activities	**4,014.5**	5,710.1	(29.69%)
Net cash flows from investing activities	**(1,603.1)**	(3,418.7)	53.11%Note 2
Sub-total of cash inflows from financing activities	**45,547.7**	34,952.5	30.31%Note 3
Sub-total of cash outflows from financing activities	**43,461.8**	23,552.1	84.53%Note 4
Net cash flows from financing activities	**2,085.9**	11,400.4	(81.70%)Note 4
Net increase in cash and cash equivalents	**1,997.5**	5,757.0	(65.30%)Note 5

Note 1: Attributable mainly to the increase in cash received for the sales of goods and services and the decrease in expenses for the period;

Note 2: Attributable mainly to the increase in cash received from the disposals of subsidiaries and the decrease in capital expenditure;

Note 3: Attributable mainly to the increase in cash received from loans;

Note 4: Attributable mainly to the increase in cash paid for loan repayment;

Note 5: Attributable mainly to the decrease in net cash flows from financing activities.

For an explanation of reasons for the difference between net cash flow from operating activities and net profit of the Group for the year, please refer to "Note V. 53 Supplemental Information for the Cash Flow Statement" to the financial statements prepared under PRC ASBEs.

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

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

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

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

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

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

Report of the Board of Directors

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

7. Analysis of the Group's assets and liabilities

(1) Change of the Group's assets

Unit: RMB in millions

Item	As at 31 December 2012		As at 31 December 2011		Year-on-year increase/ decrease in percentage of total assets (percentage points)
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	
Total assets	**107,446.3**	**100.00%**	105,368.1	100.00%	—
Cash	**24,126.4**	**22.45%**	21,472.0	20.38%	2.07
Trade receivables	**22,068.2**	**20.54%**	23,873.4	22.66%	(2.12)
Inventory	**11,442.4**	**10.65%**	14,988.4	14.22%	(3.57)
Investment properties	**1,686.2**	**1.57%**	—	—	1.57
Long-term equity investments	**455.8**	**0.42%**	514.1	0.49%	(0.07)
Fixed assets	**7,096.6**	**6.60%**	7,003.8	6.65%	(0.05)
Construction in progress	**824.4**	**0.77%**	1,580.5	1.50%	(0.73)

(2) Change of the Group's liabilities

Unit: RMB in millions

Item	As at 31 December 2012		As at 31 December 2011		Year-on-year increase/ decrease in percentage of total assets (percentage points)
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	
Short-term loans	**17,923.6**	**16.68%**	11,183.3	10.61%	6.07
Long-term loans due within one year	**506.3**	**0.47%**	693.1	0.66%	(0.19)
Long-term loans	**990.0**	**0.92%**	6,940.7	6.59%	(5.67)

(3) Assets and liabilities at fair value

① Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	87,180	(42,261)	—	—	—	—	44,919
2. derivative financial assets	8,438	17,503	—	—	—	—	61,378
3. Available-for-sale financial assets	7,628	—	12,625	—	—	—	38,420
Sub-total of financial assets	103,246	(24,758)	12,625	—	—	—	144,717
Investment properties	—	(15,679)	792,769	—	—	—	1,686,158
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	103,246	(40,437)	805,394	—	—	—	1,830,875
Financial liabilities Note	6,552	(66,959)	(12,736)	—	—	—	116,486

Note: Financial liabilities comprise derivative financial liabilities.

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

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

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

③ Internal control systems relating to fair value measurement

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

Report of the Board of Directors

(4) Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	8,438	17,503	—	—	61,378
Including: derivative financial assets	8,438	17,503	—	—	61,378
2. Loans and receivables	37,049,026	—	—	(254,258)	46,426,176
3. Available-for-sale financial assets	184,974	—	—	—	167,257
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	37,242,438	17,503	—	(254,258)	46,654,811
Financial liabilities	11,818,759	(66,959)	(12,736)	—	14,029,482

8. Major customers and suppliers

Sales by the Group in 2012 to its largest customer amounted to RMB11,254.79 million, accounting for 13.37% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB30,878.80 million, accounting for 36.66% of the total sales of the Group for the year. None of the Directors or Supervisors or their associates or any of the shareholders holding 5% or more of the shares of the Company had any interest in any of the five largest customers of the Group. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

Purchases by the Group from its largest supplier amounted to RMB4,526.64 million in 2012, accounting for 9.81% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB10,309.08 million, accounting for 22.35% of the total purchases of the Group for the year. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

9. Technological innovations

The Group's development strategy is and will always be focused on proprietary development of new products, drive of industry-wide technological progress and delivery of value enhancements to customers. The Group's efforts in 2012 to further optimise its organisation and structure, enhance the application of project-based operations and improve R&D efficiency have provided strong assurance for rapid business development.

In 2012, the Group further enhanced its capabilities in core technologies as it continued to advance the building of product and technological platforms. The product and technological platforms, which had been used to support traditional telecommunications networks, was expanded to cover the sector of government and enterprise networks. The SDR platform at the access layer has been expanded with further improvements, while at the convergence and core layers, construction of the UPP platform has been accelerated. At the control and service layers, the V4 platform and ATCA platform have been expanded to create a unified computing and storage platform integrating IC and CT, which would provide a core technological platform for integrated solutions for multi-network convergence, Cloud Radio, smart pipe, Internet of Things and Cloud Computing, etc. These developments have significantly enhanced ZTE's competitiveness in wireless access, bearer network, core network, PON, services and software and handsets.

The Group maintains an annual R&D budget equivalent to approximately 10% of its sales revenue. We currently employ about 29,000 R&D personnel deployed in 19 R&D centres located in China, the United States, Sweden, France and India. The "National Key Laboratory for Mobile Network and Mobile Multimedia Technologies," undertaken to be constructed by the Group, has been completed in accordance with the building plan after nearly 2 years of construction work and delivered after passing the acceptance inspection. In 2012, the Group built more than 10 joint innovation centres in association with leading carriers around the world to ensure success in the market through better assessment of market demands and customers' experience.

As at 31 December 2012, the Group had filed applications for the global patents of over 48,000 items and had been granted patents of over 14,000 items. In 2012, the Group published PCT international patent applications for 3,906 items marking it the world's No. 1 ranking applicant in this category. With memberships at more than 70 international standardisation organisations and forums, positions of convenors and report presenters at major international standardisation organisations taken up by more than 30 experts from the Group, the presentation of over 22,000 research papers in aggregate and editorships and authorships for more than 180 international standards, the Group has gradually fostered a leading edge in technologies and patents for key products and technologies, and its ability to counter patent risks has also been strengthened.

In 2012, the Group received the "Class I National Science and Technology Progress Award" for its project on "Research for Industrialisation Applications of TD-SCDMA Key Engineering Technologies," "Class II National Science and Technology Invention Award" for its project on "Optical Transmission Technology and Equipment with Photoelectric Cross-linking and Flexible Cross-layer Congestion Control" and "Class II National Science and Technology Progress Award" for its project on "Key Technologies and Application Innovations for New Generation Passive Optical Network EPON/10G-EPON."

In 2012, the Group undertook to lead 10 key national technology research projects, including the "new-generation broadband wireless mobile telecommunication network (Key Project III)". The Group was also charged with the research, development and industrialisation of more than ten projects including the National 863 Project, next-generation internet project of China, electronic development foundation, Internet of Things foundation and Guangdong Technology Programme.

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

Report of the Board of Directors

10. Analysis of investment

(1) Equity investments

① **Overview**

The Group's equity investment in 2012 amounted to approximately RMB455.768 million, representing a decrease of 11.34% compared to approximately RMB514.091 million reported for 2011.

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

② **Investment in Securities and the Holding of Equity Interests in Other Listed Companies**

A INVESTMENT IN SECURITIES

Securities Investment by the Company at the end of the year:

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300077	Nationz Technologies	172.38	312.58	1.15%	312.58	1.15%	4,491.85	(4,132.4)	Trading financial assets	Initial investment
Other investment in securities held at the end of the period			–	–	–	–	–	–	–	–	–
Total			172.38	312.58	–	312.58	–	4,491.85	(4,132.4)	–	–
Announcement date of the Board approving investment in securities			N/A								
Announcement date of the general meeting approving investment in securities			N/A								

Details in investment in securities:

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

As at the end of the year, the Company held 3,125,800 shares in Nationz Technologies (accounting for approximately 1.15% of the total share capital of Nationz Technologies), all of which were unrestricted circulating shares. As the Company does not exercise significant influence over the operating activities of Nationz Technologies, shares held by the Company have been accounted for as trading financial assets for accounting purposes and investment gains and profit/loss from fair value change have been measured at fair value.

B THE HOLDING OF EQUITY INTERESTS IN OTHER LISTED COMPANIES

On 13 December 2011, the IPO application of Jufei, a company in which Changfei held an equity interest, was approved at the 78th working meeting of 2011 of the GEM Board Issue Approval Committee under CSRC. Jufei was listed on the GEM Board of the Shenzhen Stock Exchange on 19 March 2012. For details of the Company's holdings of equity interests in Jufei through Changfei, please refer to relevant sections in the 2012 First Quarterly Report, 2012 Interim Report and 2012 Third Quarterly Report of the Company.

As considered and approved at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, the Company disposed of 30% and 51% equity interests in Changfei to CCBI and Guangdong All Access, respectively. As at the end of the year, the Company was no longer holding any equity interests in Changfei, nor was it indirectly holding any equity interests in Jufei.

On 28 February 2012, the IPO application of Speed, a company in which the Company held an indirect equity interest, was approved at the 12th working meeting of 2012 of the GEM Board Issue Approval Committee under CSRC. Speed was listed on the GEM Board of the Shenzhen Stock Exchange on 8 June 2012.

As at the end of the year, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunshen Fund was a partnership reported in the consolidated financial statements of the Company. Zhonghe Chunsheng Fund held 2 million shares in Speed, accounting for 2.14% of the total share capital of Speed.

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at the beginning of the period (10 thousands shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (10 thousands shares)	Shareholding percentage at the end of the period	Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300322	Speed	762.79	200	2.14%	200	2.14%	3,842.00	–	Available-for-sale financial assets	Initial investment
Total			762.79	200	–	200	–	3,842.00	–	–	–

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

Report of the Board of Directors

C. Save as aforesaid, the Group did not hold any stakes in non-listed financial enterprises such as commercial banks, securities companies, insurances companies, trust companies and future companies, nor did it deal in the shares of other listed companies or was otherwise engaged in securities investment during the year.

(2) Derivative investments, entrusted investments and entrusted loans

① Derivative investments

Principal terms of derivative investment contracts (include but not limited to: the source of funds, parties to the contract, investment shares, investment period, product types, whether litigation is involved, whether there are disguised utilization of issue proceeds and review of the investment by competent decision making authorities)	In 2012, the Company conducted derivative investment using its internal funds through either ZTE, ZTE Kangxun or ZTE HK. Contract types included fixed income and value-protection derivatives. Fixed income derivatives had an investment term of 1 year or less. Value protection derivatives included forward contracts on USD, Euro, JPY and emerging market currencies and USD interest rate swaps. The investment term of forwards was 1 year or less. The investment term of USD interest rate swaps matched the medium- and long-term debts of ZTE HK. The derivative investment quota of 2012 was considered and passed by the Twenty-seventh meeting of the Fifth session of the Board of Directors and 2011 Annual General Meeting of the Company. For details, please refer to the “Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors” published by the Company on 28 March 2012 and “Announcement on the Resolutions of the 2011 Annual General Meeting” published by the Company on 25 May 2012. The derivative investments made by the Company have not been involved in litigation or disguised utilization of issue proceeds.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Derivative investments conducted by the Company during 2012 included fixed income derivatives and value-protection derivatives. The major risks and control measures are discussed as follows: 1. Market risks: For fixed-income derivatives, gains were recognised at maturity. Gains or losses arising from the change in fair value as a result of differences in domestic and overseas forward quotations during the investment period are accounted for as variable gains or losses, which will not affect the ultimate gains of the derivatives. 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 derivatives. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date.

2. Liquidity risks: Fixed-income derivative investments are based on the foreign exchange payments for imports. The product did not effectively require the appropriation of available funds and therefore presented minimal liquidity risks. The value-protection derivative investments were based on the Company's budget of foreign exchange income and expenditure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their effect on the Company's current assets was relatively small.

3. Credit risks: The counterparties to 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 may result in operational risks in actual operation; obscure terms in the trade contract may result in legal risks.

5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments will be duly controlled.

Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The gains from investments in derivatives during the reporting period was recognised by the Company. Total losses recognised for the reporting period amounted to RMB42.55 million, comprising losses from fair value change of RMB49.46 million and recognized investment gains of RMB6.91 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.

Report of the Board of Directors

Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control

Independent Non-executive Directors' opinion:

The Company conducted fixed-income derivative investments based on due USD payables to offset exchange losses arising from the appreciation of RMB by obtaining low-risk fixed income. 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 dedicated staff. The counterparties with which the Company and its subsidiaries 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 were closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

Positions in derivative investments at the end of the year

Unit: RMB in thousands

Type of contract Note 1	Opening Balance of contract	Closing balance of contract	Gain/loss during the reporting period	Closing balance of contract as a percentage of the Company's net assets as at the end of the reporting period Note 2
Fixed-income derivative investment	2,705,863	—	130	—
Value-protection derivative investment	2,669,974	4,179,892	(42,678)	19.44%
Total	5,375,837	4,179,892	(42,548)	19.44%

Note 1: Contracts are classified according to the different purposes of derivative investments and accounting treatments of such derivative investments.

Note 2: The net asset value of the Company as at the end of the reporting period is based on equity attributable to shareholders of the parent company at the end of the reporting period.

② **During the year, the Company did not enter into any entrusted investments or entrusted loans.**

(3) Use of issue proceeds

① Overview

A. Bonds cum Warrants — 中興債1

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

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

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

B. Corporate Bonds — 12中興01

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

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

Report of the Board of Directors

② Commitment of issue proceeds

For details of the commitment of issue proceeds from the Bonds cum Warrants (中興債1), please refer to the sub-section headed "(3) Use of issue proceeds ①A. Bonds cum Warrants — 中興債1" under this section; details of commitment of issue proceeds from the corporate bonds (12中興01) are as follows:

Unit: RMB in ten thousands

Investment commitments and application of over-subscription proceeds	Whether there have been changes (or partial changes)	Total amount of committed investment of issue proceeds	Total investment after adjustment (1)	Amount invested during the reporting period	Aggregate amount invested as at the end of the period (2)	Investment fulfilment as at the end of the period (%) (3)=(2)/(1)	Date by which the project is ready for intended use	Profit attained for the reporting period	Whether estimated profit is met	Whether there have been significant changes to project feasibility
Investment commitments										
Repayment of bank loans	No	258,212.60	258,212.60	258,212.60	258,212.60	100%	N/A	N/A	N/A	N/A
Working capital replenishments	No	341,787.40	341,787.40	341,787.40	341,787.40	100%	N/A	N/A	N/A	N/A
Sub-total of investment commitments	–	600,000.00	600,000.00	600,000.00	600,000.00	–	–	N/A	–	–
Application of over-subscription proceeds										
None	–	–	–	–	–	–	–	–	–	–
Repayment of bank loans (if any)	–	–	–	–	–	–	–	–	–	–
Working capital replenishments (if any)	–	–	–	–	–	–	–	–	–	–
Sub-total of application of over-subscription proceeds	–	–	–	–	–	–	–	–	–	–
Total	**–**	**600,000.00**	**600,000.00**	**600,000.00**	**600,000.00**	**–**	**–**	**N/A**	**–**	**–**
Cases of not meeting planned schedules or estimated earnings and reasons therefore (by projects)	N/A									
Statement on significant changes in project feasibility	N/A									
Amount, application and progress of use of over-subscription proceeds	N/A									
Change in the location of implementation of projects utilizing issue proceeds	N/A									
Adjustments to the manner of implementation of projects utilizing issue proceeds	N/A									
Advanced investment and fund replacement in respect of projects utilising issue proceeds	N/A									
Use of idle fund as provisional working capital replenishments	N/A									
Amount of and reasons for surplus issue proceeds in project implementation	N/A									
Application and whereabouts of unutilised issue proceeds	None									
Issues in the application and disclosure of issue proceeds or other matters	None									

③ **Change in the use of issue proceeds**

☐ Applicable ✓ N/A

(4) Analysis of principal subsidiaries and investee companies

Unit: RMB in million

Name of company	Shareholding percentage	Business sector	Principal products or services	Registered capital	Total assets	Net assets	Revenue from principal operations	Profit from principal operations	Net profit
Zhongxing Software	100%	Manufacturing	Software development	RMB51.08 million	23,657.3	5,415.6	12,205.1	11,363.4	1,372.9
ZTE HK	100%	Information technology	General businesses	HKD995 million	23,943.1	2,359.5	20,390.4	2,462.8	576.8
Shenzhen Zhongxing Telecom Technology & Service Company Limited	100%	Communications services	Communications engineering technology services	RMB50 million	4,843.1	501.3	3,805.8	2,142.3	(33.5)
ZTE Kangxun	100%	Communications and related equipment manufacturing	Manufacturing of electronic products and accessories	RMB1,755 million	19,268.9	2,135.5	46,186.2	930.5	140.0
ZTEsoft Technology Company Limited	80.1%	Manufacturing	System work contractor	RMB300 million	2,389.5	1,141.8	1,205.3	562.8	224.4
Shenzhen ZTE Mobile Telecom Company Limited	90%	Communications and related equipment manufacturing	Manufacturing and sales of communications products	RMB79.166 million	2,066.0	868.5	3,044.9	658.0	281.9
Wuxi Zhongxing Optoelectronics Technologies Company Limited	65%	Communications and related equipment manufacturing	Development and sales of optoelectronic products	RMB10 million	342.5	134.4	198.8	13.0	(8.5)
Shanghai Zhongxing Telecom Technology Company Limited	90%	Communications services	Manufacturing and sales of communications products	RMB10 million	634.3	125.3	564.8	164.1	39.9
Xi'an Zhongxingxin Software Company Limited	100%	Communications and related equipment manufacturing	Development of communications service software	RMB600 million	5,404.1	739.4	2,499.5	1,509.5	149.3
ZTE (Hangzhou) Company Limited	100%	Communications and related equipment manufacturing	Communications and related equipment manufacturing	RMB100 million	695.6	180.3	3,037.0	41.4	5.7
ZTE ICT Technology Company Limited	90%	Communications and related equipment manufacturing	Design and sales of corporate management soft/ hardware products	RMB60 million	610.0	369.8	338.6	218.6	128.6
ZTE Telecom India Private Limited	100%	Communications	Sales of communications products, engineering installation and technical services	INR2,242,658,600	2,148.7	(737.8)	1,671.9	122.4	(376.0)
ZTE DO BRAZIL LTDA	100%	Communications	Manufacturing and sales of communications products	BRL6.50 million	1,575.5	(1,087.9)	881.4	278.9	(647.2)

Report of the Board of Directors

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

The operating results of Zhongxing Software, ZTE HK, Shenzhen ZTE Mobile Telecom Company Limited, ZTE Telecom India Private Limited and ZTE DO BRAZIL LTDA for the year under review changed more than 30% compared to the reporting period of last year and had a significant impact on the consolidated operating results of the Company. Net profit of Zhongxing Software decreased by 58% year-on-year reflecting mainly fluctuations in the results of ZTE; net profit of ZTE HK increased by 146% year-on-year reflecting mainly the dividend distribution by its subsidiaries and exchange gains; net profit of Shenzhen ZTE Mobile Telecom Company Limited increased by 75% year-on-year reflecting mainly the increase in gross profit and the decrease in costs and expenses; net profit of ZTE Telecom India Private Limited and ZTE DO BRAZIL LTDA decreased by 37% and 388% year-on-year, respectively, reflecting mainly a larger number of low-margin contracts recognised during the year.

For acquisitions and disposals of subsidiaries and their impact, please refer to Note IV. 2 "Changes to the Scope of Consolidation" to the financial report prepared in accordance with PRC ASBEs.

(5) Significant investments using funds other than issue proceeds

☐ Applicable ✓ N/A

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

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

14. Explanatory statement on rectification of significant accounting errors for the year requiring retrospective restatement.

☐ Applicable ✓ N/A

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

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

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

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

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

16. *Profit distribution or capitalization of capital reserve*

(1) *Proposal for profit distribution or capitalization of capital reserve 2012*

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

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

The profit distribution proposal for the year 2011 was implemented by the Company on 18 July 2012. For details, please refer to the section headed “Material Matters — (X) Implementation of the Company’s 2011 profit distribution plan” of this report.

Aggregate profit distribution of the Company in the form of cash in 2010–2012 accounted for 110.18% 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 March 2013) which states that “Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years.”

Report of the Board of Directors

Pursuant to the "Resolution on the Amendment of Relevant Clauses of the Articles of Association" considered and approved at the Thirty-ninth Meeting of the Fifth Session of the Board of Directors and the First Extraordinary General Meeting of 2013 of the Company, held on 14 January 2013 and 7 March 2013, respectively, the profit distribution policy of the Company was adjusted primarily by adding new provisions in the following three areas:

① Specific conditions for dividend distribution by way of cash and bonus shares:

A. The Company may conduct cash dividend distributions subject to the following conditions:

a. The Company having reported positive profit available for distribution for the year (namely profit after taxation after making up for losses and allocations for reserve funds) with ample cash flow and the distribution of cash dividends not affecting the normal operation and long-term development of the Company;

b. The auditor having furnished a standard, unqualified audit report in respect of the Company's financial report for the year;

c. The Company having reported a sound gear ratio and having no significant investment plans or significant cash expenditure for the next 12 months in relation to any proposed external investments, asset acquisitions or purchases of equipment with an aggregate expenditure reaching or exceeding 10% of the Company's latest audited net assets.

B. Profit distribution shall be carried out first and foremost in the form of cash dividend distribution. Depending on the actual conditions of the Company, profit distribution may alternatively be carried out by way of bonus share distribution. Bonus share distribution may be implemented independently or in combination with cash dividend distribution. In determining the specific amount for profit distribution by way of bonus share distribution, sufficient consideration should be given to whether the total share capital after the profit distribution by way of bonus share distribution will be compatible with the current scale of business and rate of profit growth, so as to ensure that the distribution plan is in line with the overall and long-term interests of all shareholders.

② Specific conditions, decision-making procedures and mechanism for adjusting stated profit distribution policy, in particular cash dividend distribution policy:

The Company shall implement the profit distribution policy stipulated in the Articles of Association and profit distribution plans considered and approved at general meetings in a stringent manner. Where it becomes genuinely necessary to adjust the stated profit distribution policy and profit distribution plans considered and approved at general meetings, such adjustments shall be approved by the Board of Directors of the Company following deliberation (with the Independent Non-executive Directors furnishing an independent opinion) and then submitted to the general meeting for consideration and approval by way of a special resolution by the Board of Directors before implementation.

③ Measures adopted for sufficient consideration of the opinions of Independent Non-executive Directors and minority shareholders in formulating profit distribution policies and plans:

A. The Board of Directors of the Company shall take into full consideration the opinion of the Independent Non-executive Directors when formulating proposals for profit distribution of the Company, and an independent opinion shall be furnished by the Independent Non-executive Directors;

B. Following the statutory announcement of the profit distribution plan, the Company shall give sufficient consideration to the opinions and suggestions of shareholders in general and the minority shareholders in particular. When the profit distribution plan is being considered at the general meeting, the Company shall provide multiple means (including but not limited to attendance in person at the general meeting, the Internet and investors' hotline, etc) to receive suggestions in relation to the profit distribution plan furnished by shareholders in general and the minority shareholders in particular and shall give sufficient consideration to the opinions and demands of minority shareholders.

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

Year	Profit distribution plan or capitalisation of capital reserve plan	Implementation
2012	The profit distribution proposal: No profit distribution or capitalisation of capital reserve has been proposed.	Pending consideration and approval at the Company's 2012 Annual General Meeting
2011	The profit distribution plan: payment of RMB2 for every 10 shares (before tax) in cash on the basis of 3,430,952,127 shares (being the Company's total share capital of 3,440,078,020 shares as at 31 December 2011 less 9,125,893 restricted shares under the Share Incentive Scheme);	Completed on 18 July 2012
2010	The profit distribution plan: payment of RMB3 for every 10 shares (before tax) in cash on the basis of 2,804,324,498 shares (being the Company's total share capital of 2,866,731,684 shares as at 17 March 2011 less 62,407,186 restricted shares under the Share Incentive Scheme);	Completed on 7 July 2011
	The capitalisation of capital reserve: creation of 2 shares for every 10 shares on the basis of the Company's total share capital of 2,866,731,684 shares as at 17 March 2011.	

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

Unit: RMB in ten thousands

Year	Cash distribution Amount (before tax)	Net profit attributable to shareholders of the listed company in the consolidated statements	Cash distribution as a percentage of net profit attributable to shareholders of the listed company in the consolidated statements	Profit of the year available for distribution
2012	—	(284,096.20)	—	(17,820.30)
2011	68,619.04	206,016.60	33.31%	198,242.90
2010	84,129.73	325,024.70	25.88%	235,499.50
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				110.18%

17. For details of the Company's fulfillment of corporate social responsibility, please refer to the "2012 Corporate Social Responsibility Report" published on http://www.cninfo.com.cn on 28 March 2013.

Report of the Board of Directors

18. Reception of Analysts, Communications and Press Interviews of the Company During the Year

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
Presentation of the Company	Shenzhen	March 2012	Teleconference	Analysts and investors	2011 Annual Report	Published announcements and regular reports
	Hong Kong	March 2012	2011 results presentation	Analysts and investors	2011 Annual Report	Published announcements and regular reports
	Shenzhen	April 2012	Analysts' meeting	Analysts	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2012	Teleconference	Analysts and investors	2012 First Quarterly Report	Published announcements and regular reports
	Shenzhen	July 2012	Teleconference	Analysts and investors	Preliminary announcement of 2012 interim results	Published announcements and regular reports
	Shenzhen	August 2012	Teleconference	Analysts and investors	2012 Interim Report	Published announcements and regular reports
	Shenzhen	October 2012	Teleconference	Analysts and investors	Preliminary results announcement for the nine months ended 30 September 2012	Published announcements and regular reports
	Shenzhen	October 2012	Teleconference	Analysts and investors	2012 Third Quarterly Report	Published announcements and regular reports
External meetings	Hong Kong	January 2012	Citibank investors' meeting	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2012	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2012	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	May 2012	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Enshi	June 2012	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2012	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2012	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	Chengdu	July 2012	China Galaxy Securities investors' meeting	Customers of China Galaxy Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Chengdu	July 2012	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	August 2012	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	August 2012	Merrill Lynch Securities investors' meeting	Customers of Merrill Lynch Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Kunming	October 2012	BNP investors' meeting	Customers of BNP	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	October 2012	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	October 2012	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Beijing	November 2012	Merrill Lynch Securities investors' meeting	Customers of Merrill Lynch Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Sanya	November 2012	Huatai United Securities investors' meeting	Customers of Huatai United Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shanghai	December 2012	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2012	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2012	Minsheng Securities investors' meeting	Customers of Minsheng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	December 2012	Great Wall Securities investors' meeting	Customers of Great Wall Securities	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
				Overseas Investors		
Company visits by investors	Company	January to December 2012	Verbal	Merrill Lynch Securities, Shenghai Investments, Tokai Tokyo Securities (Asia) Limited, GSI, Neptune Investment Management, KGI, F & C Group, Baillie Gifford & Co Limited, Goldman Sachs, Shenyin Wanguo, BOCI, Havenport, Nomura Securities, Collins Stewart LLC, Sumitomo Mitsui Asset Management, UOB, ING, Core Pacific, Display bank, Schroder Investment Management (Singapore) Ltd., Lansdowne Partners Limited, Capital, Mitsubishi UFJ Securities, CGII, CCB International, Kynikos Associates, Youli Investment, Pengana Capital Limited, Comgest Asia, Everbright International, Oaktree Capital, De L Echiquier, Mondrian Investment Partners, Teng Yue Partners, Korea Investment & Securities, Deutsche Bank, CN Investment Division, Smith & Williamson, UBS Asset Management, Absolute Asia Asset Management, DBS, SAC, APS, CLSA, Daiwa Securities, Mizuho Asset Management, Putnam, Prime Capital Management, Piper Jaffray, Credit Suisee, Artisan Partners Limited, Daiwa Capital Market, Macquarie Securities, Wedge Partners, HighBridge, Cathay Securities Investment, Morgan Stanley, United President Investment and Trust (統一投信), Mitsubishi UFJ Investment Services (HK) Limited, Citi Bank, Asian Values PLC, Cadian Capital, JF Asset Management, Westwood Global Investments LLC, UBS, TRILOGY GLOBAL ADVISORS USA, Standard Chartered Bank (Hong Kong) Limited, Kanya Hasegawa from Broad Peak Investment, Atlantis Investment, Matthews, Fidelity, Wellington, EFG Bank, China Investment Securities, Blackrock, Kingdon Capital, Arete Research, Turiya Capital, Nomura Asset Management, RCM, CIMB Securities Limited, Cavalry, Prudential Taiwan, Pine River Capital Management, Discovery Capital Management, L.L.C.	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic Investors		
Company visits by investors	Company	January to December 2012	Verbal	Hua Chuang Securities, Guotai Junan Group Research, China Merchants Securities, Everbright Securities, E Fund, Great Wall Securities, China AMC, Bosera Fund, Xiangcai Securities, Southern Fund, Sinolink Securities, First Capital, CITIC Securities, Haitong Securities, Guangfa Fund, Goldstate Securities, Shang Cheng Asset, Rongtong Fund, Zhongshan Securities, Wise Win, Taiping Asset, China Securities, PICC, China Life Insurance, Changjiang Securities, Harvest Fund, Caitong Fund, China Merchants Fund, Taishi Investment, Springs Capital, Guosen Asset Management, Shangke Investment (上科投資), China Galaxy Securities, Invesco Great Wall, Franklin Templeton Sealand Fund, Everbright Pramerica Fund, Pearl Fund, Minsheng Securities, Guosen Securities, Essence Securities, Yinhua Fund, Copower Investment	Day-to-day operations of the Company	Published announcements and regular reports

Report of the Board of Directors

(III) Business outlook for 2013 and risk exposures

1. Business outlook for 2013

Looking forward to 2013, in connection with wireless networks, the rapid development of the Mobile Internet will drive the optimisation and upgrade of 3G networks and the commercial deployment of 4G networks. In connection with wireline networks, broadband markets around the world in varied stages of development are enjoying thriving development to fulfil the services requirements of users. Policies relating to the broadband strategy adopted by various countries will continue to drive broadband construction, while increased data flow over wireless and wireline networks will present development opportunities for transmission networks. Meanwhile, smart terminals will remain in the fast track for development given the continuous penetration of the Mobile Internet and the growing variety of mobile applications. Moreover, the ability to provide integrated solutions and forge stable, long-term partnerships will be crucial given changing requirements of major carriers. In this regard, the Group has cooperated with mainstream international carriers on all fronts on the back of its globally competitive product solutions.

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

2. Risk Exposures

(1) Country Risk

Given the complex nature of international economic and political conditions, the Group will continue to be exposed to trade protection, debtors' risks, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. As such, a very high level of operational and risk control capabilities is required.

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the management of intellectual property rights. We maintain our investment in technology research and development each year at approximately 10% of our sales revenue. Our research and development team is currently supported by approximately 29,000 employees. While the Group has adopted stringent measures to protect its intellectual property rights, potential conflicts in intellectual property rights between the Company and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group cannot be ruled out.

(3) Foreign exchange risk

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

(4) Interest rate risk

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

(5) Credit risk

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group has stepped up with the building of its international customer credit rating and credit granting management system to mitigate the aforesaid impact.

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

1. Fixed assets

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

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2012 are set out in Note 34 to the financial statements prepared in accordance with HKFRSs.

3. Reserves

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

4. Pre-emptive rights

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

5. Share capital

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

6. Competing interest

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

Management Discussion and Analysis

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

Unit: RMB in millions

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

REVENUE ANALYSIS BY PRODUCT AND GEOGRAPHIC REGION

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

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

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

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

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

Management Discussion and Analysis

Unit: RMB in millions

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

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

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

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

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

OTHER INCOME AND GAINS

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

RESEARCH AND DEVELOPMENT COSTS

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

SELLING AND DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

PROFIT FROM OPERATING ACTIVITIES

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

FINANCE COSTS

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

TAX

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

PROFIT ATTRIBUTABLE TO MINORITY INTERESTS

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

OTHER COMPREHENSIVE INCOME

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

CAPITAL MANAGEMENT POLICY

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

Management Discussion and Analysis

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

Debt-equity ratio is calculated by dividing interest-bearing liabilities by the sum of interest-bearing liabilities and equity (including minority interests). The Group's debt-equity ratio for 2012 was 62.5%, increasing by 8.7 percentage points as compared to 53.8% for 2011. The increase was mainly attributable to the increase in the Group's bank loans to replenish working capital.

LIQUIDITY AND CAPITAL RESOURCES

In 2012, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements.

Cash and cash equivalents of the Group as of 31 December 2012 amounted to RMB22,659.6 million.

CASH FLOW DATA

Unit: RMB in millions

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

OPERATING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCING ACTIVITIES

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

CAPITAL EXPENDITURE

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

Unit: RMB in millions

Capital expenditure	2012	2011
Purchases of fixed assets and increase of construction in progress payments	**1,257.6**	2,548.5

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

INDEBTEDNESS

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

Management Discussion and Analysis

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

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

CONTINGENT LIABILITIES

Unit: RMB in millions

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

CAPITAL COMMITMENTS

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

Unit: RMB in millions

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

DETAILS OF THE SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES OF THE GROUP

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

MATERIAL ACQUISITIONS AND DISPOSALS RELATED TO SUBSIDIARIES AND ASSOCIATES

Details of material acquisitions and disposals related to subsidiaries of the Group in 2012 are set out in the section headed “Material Matters — (IV) Asset Transactions” in this report.

PROSPECTS FOR NEW BUSINESS

Details of the prospects for new business of the Group are set out in the section headed "Chairman's Statement" in this report.

EMPLOYEES

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

CHARGES ON ASSETS

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

PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group's material investments and their performance and prospects as at 31 December 2012 are set out in the section headed "Material Matters — (IV) Asset Transactions" in this report.

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

MARKET RISKS

For details of the Group's exposure to market risks, please refer to the section headed "Report of the Board of Directors — (III) Business outlook for 2013 and risk exposures" in this report.

Material Matters

(I) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material Litigation and Arbitration

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

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

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

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

(2) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB49,975,200). Meanwhile, the Company instituted a counterclaim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB21,486,600) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

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

(3) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24.912 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 appeal at the Intermediate Court.

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

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate People's Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate People's Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Provincial Higher People's Court against the said judgement.

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

(4) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract which otherwise should have been secured as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, 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 with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

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

(5) In February 2012, the Company and Telefonaktiebolaget LM Ericsson (publ) ("Ericsson") entered into an AGREEMENT OF DISPUTE RESOLUTION, pursuant to which the two parties agree to withdraw all patent infringement litigations against each other, including all pending patent disputes between the parties in Germany, the United Kingdom and China. For details, please refer to the section headed "Material Matters (I) Material Litigation and Arbitration" in the 2011 Annual Report of the Company.

Material Matters

(6) On 28 April 2011, the Company and ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company, received a statement of claim from the District Court of Paris, France, according to which a lawsuit has been filed by Huawei Technologies Co., Ltd. ("Huawei"), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. The Company submitted a defense to the court according to the required timeline. As the Company is no longer selling the products involved in this case, the litigation will not have any substantial impact on the local sales of the Company. In respect of the patent which is the subject of Huawei's litigation and other related patents of the same class, ZTE France has filed a lawsuit with the District Court of Paris, France to claim the invalidity of the patent. The aforesaid two cases have been merged for trial purposes, and court trial was completed on 8 January 2013 pending judgement.

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

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

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

On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. ("ZTE Hungary"), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of

Huawei's litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patent. As at the end of the reporting period, the court ruled to suspend trial in respect of all of the 4 patents under litigation.

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

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

(7) On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. The legal counsel engaged by the Company has submitted a defense in a timely manner to deny all allegations made by the carrier.

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

(8) On 29 July 2011 and 2 January 2013, 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 3G patent rights. Defendants in this 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 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. For the case filed in 2011, the litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

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

(9) 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,

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whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court.

On 12 October 2012, the Company and ZTE USA filed a defense and a counter-claim with ICDR, alleging that CLEARTALK had committed breach of contract, fraud and abuse of litigation rights and had seriously compromised the interests of the Company. Under the mediation of the arbitrator, the two parties agreed to reschedule the date of arbitration to 1 April 2013, while the location of arbitration would remain Jacksonville, Florida. As the arbitration procedures of the United States do not provide for any limit on the amount compensation demanded by an applicant, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

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

(10) 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 RMB224 million).

On 20 January 2012, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provided that the agreement should apply to ICMS tax incurred prior to May 2009, ZTE Brazil was not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 29 November 2012, the tax bureau of Sao Paulo State issued a notice that ZTE Brazil had paid the ICMS or made a remedial payment thereof and recommended suspension of execution of the notice of administrative penalty. The case is pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

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

(11) In May 2012, a U.S. company filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

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

(12) In July 2012, a U.S. company filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

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

(13) In November 2012, ZTE Brazil, a wholly-owned subsidiary of the Company, filed an application with Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB93,951,400). On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB249 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

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

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2012, where PKR amounts are translated at the exchange rate of PKR1:RMB0.0655 and BRL amounts at BRL1:RMB2.9965.

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2. General Media Queries

(1) In August 2012, the Company and ZTE HK reached an agreement for settlement with Union Eternal Engineering Limited ("Union Eternal") in respect of engineering work payments. The case had been officially closed following the issuance of a notice in writing by the High Court of the Hong Kong Special Administrative Region on 24 August sanctioning the withdrawal of the application for the liquidation of the Company and ZTE HK previously filed by Union Eternal. For details, please refer to the "Announcements of the Board of Directors" published by the Company on 16 and 27 August 2012, respectively.

(2) In October 2012, the Board of Directors of the Company issued a statement regarding the Investigative Report of the House Permanent Select Committee on Intelligence of the United States and the termination by Cisco Systems Inc. of the strategic cooperation agreement with the Company. For details, please refer to the "Announcement of the Board of Directors" published by the Company on 9 October 2012.

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

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

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

The "Statement on Amounts Receivable from the Controlling Shareholder and Other Connected Parties by ZTE Corporation" issued by Ernst & Young Hua Ming LLP was set out in an announcement published by the Company on 28 March 2013 on the website designated for information disclosure.

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

(IV) ASSET TRANSACTIONS

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

1. Disposal of 82% interests in Zhongxing Hetai by the Company

(1) Disposal of assets

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of execution of agreement	Transaction price	Net profit contributions to the Company by the assets from the beginning of the period to the date of disposal	Gain/ loss from disposal	Net profit contributions of the asset disposal to the listed company as a percentage of total profit	Pricing principle for asset disposal	Whether a connected transaction	Relationship with the counterparty (as applicable to connected transactions)	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Domestic announcement date and index
Zhongxing Development	82% interests in Zhongxing Hetai	26 June 2012	2,517.4	229.76	0.2	−0.0001%	The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012	Yes	Mr. Hou Weigui, Chairman of the Company, was chairman of Zhongxing Development	Yes	Yes	27 June 2012 Announcement No. 201233 "Announcement of Connected Transaction"

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

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

(2) Statement relating to the disposal of assets

The transfer of 82% equity interests in Zhongxing Hetai by the Company to Zhongxing Development was approved at the Thirtieth Meeting of the Fifth Session of the Board of Directors of the Company held on 26 June 2012. The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012. As at 30 April 2012, the audited net assets of Zhongxing Hetai amounted to RMB30,697,600. On the basis of the aforesaid audited net assets, the two parties agreed that 100% equity interests in Zhongxing Hetai be valued at RMB30.70 million. Therefore, the 82% equity interests in Zhongxing Hetai was sold to Zhongxing Development by the Company at a price of RMB25,174,000.

Mr. Hou Weigui, Chairman of the Company, was also chairman of Zhongxing Development. Therefore Zhongxing Development is an associated corporation of the Company under Rule 10.1.3 (III) of the Shenzhen Listing Rules. Mr. Hou Weigui did not take part in the votes during the consideration of the resolution. For details of the asset disposal, please refer to the "Overseas Regulatory Announcement" published by the Company on 26 June 2012.

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

The equity transfer was priced by reference to the audited net assets of Zhongxing Hetai, and as such had no significant effect on the Group's profit.

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2. Disposal of 68% interests in Special Equipment by the Company

(1) Disposal of assets

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of execution of agreement	Transaction price	Net profit contributions to the Company by the assets from the beginning of the period to the date of disposal	Gain/ loss from disposal	Net profit contributions of the asset disposal to the listed company as a percentage of total profit	Pricing principle for asset disposal	Whether a connected transaction	Relationship with the counterparty (as applicable to connected transactions)	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Domestic announcement date and index
Buyers Note 1	68% interests in Shenzhen ZTE Special Equipment	21 September 2012	56,125.21	2,977.10	43,640.40	–22.01%	The pricing was arrived at by reference to a price-earnings multiple based on the audited financial data of ZTE Special Equipment for 2012	No	N/A	Yes	Yes	22 September 2012 Announcement No. 201247 "Announcement of Disposal of Equity Interests in Shenzhen ZTE Special Equipment Company Limited"

Note 1: The buyers were 10 investors, including Shenzhen Capital Group Co.,Ltd (深圳市創新投資集團有限公司), Guandong Hongtu Venture Capital Management Co., Ltd. (廣東紅土創業投資有限公司) and Nanjing Hongtu Venture Capital Management Co., Ltd. (南京紅土創業投資有限公司) and others.

Note 2: The connected transaction mentioned above is defined under the Shenzhen Listing Rules and other domestic securities regulatory provisions.

Note 3: Information set out under "Whether titles to asset involved have been transferred in full" and "Whether creditors' rights and debts have been transferred in full" represented status as at the date of this report.

(2) Statement relating to the disposal of assets

To meet the requirements of the Company's strategic development and to facilitate the development of the Company's principal business, the Company entered into the "Equity Transfer Agreement on the Transfer of 68% Equity Interests in Shenzhen ZTE Special Equipment Company Limited" on 21 September 2012 with 10 investors including Shenzhen Capital Group Co.,Ltd (深圳市創新投資集團有限公司), Guandong Hongtu Venture Capital Management Co., Ltd. (廣東紅土創業投資有限公司) and Nanjing Hongtu Venture Capital Management Co., Ltd. (南京紅土創業投資有限公司), pursuant to which the Company disposed of its 68% equity interests in ZTE Special Equipment to the Buyers.

The said equity transfer did not constitute a connected transaction or a significant asset reorganisation of the Company and was considered and approved at the Thirty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 21 September 2012. The said equity transfer will result in an investment gain for the Company in the region of RMB360 million to RMB440 million, which will provide additional working capital for the Company to support the development of its principal businesses. For details please refer to the "Announcement of Disposal of Equity Interests in Shenzhen ZTE Special Equipment Company Limited" published on 21 September 2012.

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

The two parties to the transaction have been working on the settlement of and related payments for the equity interests in accordance with the "Equity Transfer Agreement on the Transfer of 68% Equity Interests in Shenzhen ZTE Special Equipment Company Limited" and the investment gains of approximately RMB440 million was recognised by the Company during the year.

3. Disposal of 81% interests in Changfei by the Company and subscription to shares and convertible bonds of China All Access by ZTE HK

(1) Disposal of assets

Unit: RMB in ten thousands

Counterparty	Assets disposed of	Date of execution of agreement	Transaction price	Net profit contributions to the Company by the assets from the beginning of the period to the date of disposal	Gain/ loss from disposal	Net profit contributions of the asset disposal to the listed company as a percentage of total profit	Pricing principle for asset disposal	Whether a connected transaction	Relationship with the counterparty (as applicable to connected transactions)	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Domestic announcement date and index
CCBI	30% equity interests in Changfei	16 November 2012	48,000	2,878.06	28,067.99	−14.15%	Priced at 10.5 times of the audited consolidated net profit of Changfei for 2011	No	N/A	Yes	Yes	17 November 2012 Announcement No. 201253 "Announcement of Matters pertaining to Investment"
Guangdong All Access	51% equity interests in Changfei		81,600	4,892.70	47,715.59	−24.06%		No	N/A	Yes	Yes	

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

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

(2) Statement relating to the disposal of assets and the subscription of shares in and convertible bonds of China All Access by ZTE HK

To meet the requirements of the Company's strategic development and to facilitate the development of the Company's principal business, the Company entered into the "Equity Transfer Agreement for the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" and "Equity Transfer Agreement for the Transfer of 51% Equity Interests in Shenzhen Changfei Investment Company Limited"with CCBI and Guangdong All Access, respectively, on 16 November 2012, pursuant to which the Company disposed of 30% equity interests and 51% equity interests to CCBI and Guangdong All Access, respectively. On the same date, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement for the Subscription of Shares in and Convertible Bonds of CHINA ALL ACCESS (HOLDINGS) LIMITED" with China All Access, pursuant to which ZTE HK will subscribe to 112,000,000 shares in China All Access (at a subscription price of approximately HK$1.8/share) and convertible bonds of China All Access with a nominal principal amount of HK$201.5 million and an annual interest rate of 10% for a term of 2 years.

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The said equity transfer did not constitute a connected transaction or a significant asset reorganisation of the Company and was considered and approved at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012. The said equity transfer will result in an investment gain for the Company in the region of RMB450 million to RMB850 million, which will provide additional working capital for the Company to support the development of its principal businesses. For details please refer to the "Discloseable Transaction — Disposal of Equity Interest in Shenzhen Changfei Investment Company Limited" published on 16 November 2012.

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

The two parties to the transaction have been working on the settlement of and related payments for the equity interests in accordance with the "Equity Transfer Agreement for the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" and "Equity Transfer Agreement for the Transfer of 51% Equity Interests in Shenzhen Changfei Investment Company Limited" and the investment gains of approximately RMB760 million was recognised by the Company during the year.

ZTE HK, a wholly-owned subsidiary of the Company, subscribed to 112,000,000 subscription shares allotted and issued by China All Access on 15 January 2013 for a total cash consideration of HK$201.5 million, as well as convertible bonds issued by China All Access with a principal amount of HK$201.5 million for a total cash consideration of HK$201.5 million. For details please refer to the announcement "Completion of Issue of Subscription Shares and Convertible Bonds" published by China All Access on the website of Hong Kong Stock Exchange and its corporate website on 15 January 2013.

4. Disposal of 81% equity interests in ZNV by the Company and ZTE HK in aggregate

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

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

The two parties to the transaction have been working on the settlement of and related payments for the equity interests in accordance with the "Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company" and "Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company."

5. Updates on the Disposal of 51% equity interests in CCT by the Company

On 21 October 2011(Beijing time), the Company sold its 51% equity interests in CCT to Pan Communication Investments and Atlas International Investments (both of which are wholly-owned subsidiaries of France Telecom) and the transfer of equity ownership was completed on the same date. On 27 December 2012, the Company entered the "Amendments and Supplemental Agreement to the Equity Transfer Agreement" with the aforesaid two companies, pursuant to which, the final transaction price of Equity Transfer at USD1 million was agreed by both parties. For details please refer to the relevant section headed "Material Matters" in the 2011 Annual Report of the Company and "Announcement Updates on the Disposal of 51% Equity Interests in Congo Chine Telecom S.A.R.L." dated 28 December 2012.

(V) PROGRESS OF THE PHASE I SHARE INCENTIVE SCHEME OF THE COMPANY DURING THE YEAR

The Phase I Share Incentive Scheme of the Company was under normal implementation during the year.

At the Thirty-seventh Meeting of the Fifth Session of the Board of Directors of the Company held on 6 December 2012, the "Resolution on the Third Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" was considered and passed, which confirmed that the conditions for the Third Unlocking of the Subject Shares under the Second Award of the Company had been fulfilled and that 735 Scheme Participants under the Second Award had satisfied conditions for the Third Unlocking of Subject Shares under the Phase I Share Incentive Scheme, and proposed to unlock a total of 6,589,151 shares. For details, please refer to the "Announcement of Resolutions of the Thirty-seventh Meeting of the Fifth Session of the Board of Directors" published by the Company on 6 December 2012.

On 20 December 2012, the Company received a "Confirmation Letter of Shares Change Registration" issued by China Securities Depository & Clearing Corporation Limited, Shenzhen Branch. The Third Unlocking of the Subject Shares in the Second Award under the Phase I Share Incentive Scheme was completed, with a total of 6,589,151 Subject Shares being unlocked, accounting for 0.19% of the total share capital of the Company. The date of listing and circulation of Subject Shares subsequent to the release of restrictions was 24 December 2012. For details, please refer to the "Announcement of the Completion of the Third Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" published by the Company on 20 December 2012.

The impact of the Phase I Share Incentive Scheme of the Company on the Company's operating results and financial conditions is discussed in further detail in Note VII to the financial statements prepared under PRC ASBEs.

(VI) INFORMATION ON THE BONDS CUM WARRANTS ISSUED BY THE COMPANY

1. Overview of the Bonds cum Warrants of the Company

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

Four interest payments, each with an aggregate amount of RMB32,000,000, were made in respect of the bonds on 2 February 2009, 1 February 2010, 31 January 2011 and 30 January 2012 respectively. The bonds matured on 30 January 2013 and the total amount of principal and interest paid was RMB4,032,000,000.

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

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

2. **There was no conversion, redemption or cancellation of the Bonds cum Warrants of the Company.**

3. **Top ten bond holders and their holdings**

As at 31 December 2012, there were 1,673 holders of Bonds cum Warrants of the Company, the top ten of which were as follows:

No.	Name of bond holders	Number of bonds held	Bond holding ratio
1	New China Life Insurance Company Limited	7,991,671	19.98%
2	China Petroleum Finance Company Limited	4,084,207	10.21%
3	China Life Insurance Company Limited	3,505,536	8.76%
4	Sino Life Insurance Co., Ltd. — Traditional — General Insurance Products	2,422,890	6.06%
5	National Social Insurance Fund 901 Portfolio	1,999,991	5.00%
6	Industrial and Commercial Bank of China — Southern Risk-resistant Value-added Fund	1,851,373	4.63%
7	PICC Health Insurance Company Limited-Universal Life Insurance	1,400,000	3.50%
8	Haitong-BOC-Fortis Bank	1,299,246	3.25%
9	China Pacific Insurance (Group) Co., Ltd.	1,286,327	3.22%
10	Taikang Life Insurance Co., Ltd.	771,170	1.93%

4. **There was no significant change in the profitability, asset conditions and credit standing of China Development Bank, the guarantor for the Bonds cum Warrants of the Company.**

5. Status of liabilities and credit rating changes of the Company and debt repayments during the year

At the end of the year, the Group's gearing ratio was 78.93% according to the financial statements prepared under PRC ASBEs and there was no change in the Group's credit rating. The Bonds cum Warrants of the Group have a 5-year life from the date of issue. Interest is paid annually with the interest payment date falling on the anniversary of issue of the Bonds cum Warrants. The Group will pay the interest for the current year within 5 business days following (and inclusive of) the interest payment date. The Group will repay the principal together with interest accruable for the year within 5 working days after the maturity date of the bonds.

The bonds matured on 30 January 2013 and payments of principal and interest with a total amount of RMB4,032 million have been completed.

6. Other information

On 17 March 2010, the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with China Development Bank, Shenzhen Branch and Guotai Junan Securities Co., Ltd. in respect of the proceeds from the issue of Bonds cum Warrants. On 22 March 2010, the Company received the "Notice of Replacement of Sponsor's Representative" from Guotai Junan Securities Co., Ltd., the Company's sponsor in respect of the issue of Bonds cum Warrants. On 23 March 2010, the "Resolution of the Company on the Replacement of Internal Funds Previously Invested in Issue Proceed Investment Projects with Proceeds from the Issue of Bonds cum Warrants" was passed at the Thirty-fourth Meeting of the Fourth Session of the Board of Directors of the Company. For details of the aforesaid matters, please refer to the "Overseas Regulatory Announcement" of the Company dated 17 and 24 March 2010. The use of proceeds from the Company's issue of Bonds cum Warrants is discussed in the section headed "(II) Management Discussion and Analysis Prepared in accordance with PRC ASBEs" in "Report of the Board of Directors" of this report.

(VII) INFORMATION ON THE CORPORATE BONDS OF THE COMPANY

1. Information on the issue of corporate bonds by 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 at an issue price of RMB100 each in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary Meeting of 2012 of the Company held on 11 April 2012 and approval by the CSRC by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The Issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors.

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Based on the results of offline bid placing to institutional investors conducted on 12 June 2012 and following agreement between the Company and the co-lead underwriter, the issue size was finalised at RMB6 billion, comprising an initial issue size of RMB4 billion and an additional allotment size of RMB2 billion, respectively. The coupon interest rate for the Issue was finalised at 4.20%, which would remain fixed and unchanged throughout the subsisting period of the bonds. Interests on the corporate bonds under the Issue are accruable from 13 June 2012, and the interest accrual period shall be commence on 13 June 2012 and end on 12 June 2015. Interest accrued for each year from 2013 to 2015 shall be payable on 13 June of the following year or, if such date is a statutory festival or holiday or rest day, the first business day immediately following that date. No interest is accruable on the amount of each interest payment. Interest under the Issue shall be calculated annually on the basis of simple interest instead of compound interest. Interest payment will be made once each year and the principal amount will repaid in a one-off payment upon maturity. The last interest payment shall be made together with the principal repayment.

The Company conducted an online offering to public investors on 13 June 2012 based on the aforesaid coupon interest rate (issue code: “101696”; abbreviated name: “12中興01”). During the period from 13 June 2012 to 15 June 2012, the issue was made offline to institutional investors. The Issue was closed on 15 June 2012, with a final actual issue volume of RMB200 million for the online portion and RMB5,800 million for the offline portion, accounting for 3.33% and 96.67% of the final total issue volume, respectively.

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”.

For details of the aforesaid matter, please refer to the “Announcement of Resolutions of the Twenty-sixth Meeting of the Fifth Session of the Board of Directors”, the “Announcement of Resolutions of the First Extraordinary General Meeting of 2012”, the “Announcement of Examination and Approval by the Issue Examination Committee under China Securities Regulatory Commission of the Company’s Application for the Issue of Corporate Bonds” and the “Announcement of Approval by China Securities Regulatory Commission of the Issue of Corporate Bonds to the Public” published by the Company on 8 March 2012, 11 April 2012, 11 May 2012 and 6 June 2012, respectively, and the “Overseas Regulatory Announcement” published on 10 June, 12 June, 17 June and 11 July 2012, respectively.

2. Top ten bond holders and their holdings

As at 31 December 2012, there were 97 holders of Corporate Bonds of the Company, the top ten of which were as follows:

No.	Name of Corporate Bond holders	Number of bonds held	Bond holding ratio
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
2	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	6,000,000	10.00%
5	National Social Insurance Fund 204 Portfolio	2,700,000	4.50%
6	Agricultural Bank of China — Penghua Jingang Capital Preservation Mixed Fund	2,249,960	3.75%
7	China Construction Bank — Penghua Harvest Bond Fund	2,000,000	3.33%
8	China Merchants Bank — BOC Stable Profit and Dividend Bond Fund	1,926,320	3.21%
9	Industrial and Commercial Bank of China — BOC Stable Profit Increment Bond Fund	1,765,070	2.94%
10	National Social Insurance Fund 409 Portfolio	1,000,000	1.67%
10	Industrial and Commercial Bank of China Limited Corporate Annuity Plan — China Construction Bank	1,000,000	1.67%

(VIII) PASSING OF REVIEW FOR THE COMPANY'S STATUS AS A HI-HECH ENTERPRISE

As set out in the "Notice on the Collection of Certificate for National Hi-tech Enterprise of Shenzhen Passing the 2011 Review" (《關於領取深圳市2011年通過複審國家高新技術企業證書的通知》) (Shen Ke Gong Mao Xin Chan Ye Zi [2012] No. 4) published by the Science, Industry, Trade and Information Technology Commission of Shenzhen on its official website (www.szsitic.gov.cn) on 3 February 2012 in accordance with the "Administrative Measures for the Recognition of Hi-tech Enterprises" (《高新技術企業認定管理辦法》) (Guo Ke Fa Huo [2008] No. 172) and the "Guidelines for the Administration of Hi-tech Enterprise Recognition" (《高新技術企業認定管理工作指引》) (Guo Ke Fa Huo [2008] No. 362), the Company has passed the review for its status as a national hi-tech enterprise, which shall be valid for three years. In accordance with the Income Tax Law of the People's Republic of China and national tax regulations applicable to hi-tech enterprises, the Company shall be entitled to a preferential tax policy and subject to a reduced income tax rate of 15% during the valid term of its hi-tech enterprise status.

For details of the Company's passing of the review for its status as a national hi-tech enterprise, please refer to the "Announcement of the Passing of Review on Hi-tech Enterprise Status" of the Company dated 6 February 2012.

(IX) WAIVER OF RIGHTS BY THE COMPANY

ZTE ITS is a company in which the Company holds a 19% equity interest.

The other two existing shareholders transfered their respective equity interests in ZTE ITS to their domestic natural person shareholder and domestic subsidiary, respectively, so that ZTE ITS might be converted from a Chinese foreign joint venture to a domestic company. The Company waived the aforesaid first right of refusal. Following the completion of the said transfer of equity interests, the percentage of the Company's equity interests in ZTE ITS remained unchanged.

Following the aforesaid transfer of equity interests, ZTE ITS also introduced new shareholders in two deals to increase the share capital of ZTE ITS by RMB38.13 million (including the transfer of equity interests by an existing shareholder to a new shareholder, in respect of which the Company waived its first right of refusal) and RMB13.80 million, respectively. The Company also waived the aforesaid capital contribution option. Following the completion of the said share capital increase, the percentage of the Company's equity interests in ZTE ITS was reduced from 19% to 14.4%.

The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Fifth Session of the Board of the Directors of the Company and the 2011 Annual General Meeting convened on 28 March 2012 and 25 May 2012, respectively. For details please refer to the "Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors", "Announcement on the Waiver of Rights" published by the Company on 28 March 2012 and the "Announcement of Resolutions of the 2011 Annual General Meeting" published on 25 May 2012.

(X) IMPLEMENTATION OF THE 2011 PROFIT DISTRIBUTION PLAN OF THE COMPANY

The plan of profit distribution for 2011 was considered and passed at the 2011 Annual General Meeting held on 25 May 2012 and implementation had been completed on 18 July. The Company made a profit distribution RMB2 for every 10 shares (including tax) in cash based on a share capital of 3,430,952,127 shares (comprising 2,810,366,682 A shares and 629,585,445 H shares), namely total share capital of 3,440,078,020 shares (comprising 2,810,492,575 A shares and 629,585,445 H shares) as at the record date less 9,125,893 restricted shares under the share incentive scheme as at the record date. The record date was 17 July 2012 and the ex-rights/ex-dividend

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date was 18 July 2012, for A shares. In respect of H shares, the record date was 4 June 2012, and the dividend payment date was 18 July 2012. For details, please refer to the "Information on Payment of Final Dividend" published by the Company on 10 July 2012.

(XI) CAPITAL REDUCTION OF FOUR SUBSIDIARIES OF THE COMPANY BY WAY OF JUXIAN'S DISPOSAL OF EQUITY INTERESTS AND THE COMPANY'S ACQUISITION OF 10% EQUITY INTERESTS IN GUANGDONG NEW PIVOT FROM JUXIAN

At the Thirty-first Meeting of the Fifth Session of the Board of the Directors of the Company, it was approved that four subsidiaries, namely ZTE Kangxun, Zhongxing Microelectronics, Zhongxing Software and Changfei would reduce their respective capital by way of the disposal by Juxian of its respective equity interests in the said companies, upon the completion of which Juxian would no longer hold any equity interest in the said companies; and that the Company would acquire from Juxian a 10% equity interest in Guangdong New Pivot.

The aforesaid matter constituted a connected transaction under the Hong Kong Listing Rules but not under the Shenzhen Listing Rules. For details please refer to the "CONNECTED TRANSACTIONS — INCREASE OF INTEREST IN FIVE SUBSIDIARIES BY WAY OF CAPITAL REDUCTIONS AND EQUITY ACQUISITION" published by the Company on 16 July 2012.

(XII) "DEVELOPMENT FINANCING STRATEGIC COOPERATION AGREEMENT" BETWEEN THE COMPANY AND CHINA DEVELOPMENT BANK

On 4 December 2012, the Company entered into a "Development Financing Strategic Cooperation Agreement" with China Development Bank ("CDB"), pursuant to which CDB would provide a USD20 billion facility for cooperation, comprising financing facilities for the Company's overseas projects and credit facilities for the Company. The aforesaid agreement shall form the framework of business cooperation for an effective period of five years. Separate agreements shall have to be signed by the two parties in respect of specific cooperation entered into under this Agreement. For details please refer to the "Announcement on the 'Development Financing Strategic Cooperation Agreement' with China Development Bank" published by the Company on 4 December 2012.

(XIII) PROGRESS OF THE FACILITY AGREEMENT

On 8 July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a facility agreement with a total amount of USD900 million with 10 banks including BOCHK (the "Facility Agreement"), in respect of which the Company entered into a guarantee letter providing guarantee for this agreement. For details, please refer to the "Announcement on the Facility Agreement and the Provision of Guarantee to a Wholly-owned Subsidiary" published by the Company on 8 July 2011.

Pursuant to the Facility Agreement and the guarantee letter signed by the Company, the lending banks have imposed certain restrictions in relation to certain financial indicators of the Group. If the Group's financial indicators fail to meet the requirements under the Facility Agreement and the guarantee letter, the lending banks shall have the right to demand early loan repayment from ZTE HK. As at the end of the reporting period, the Group failed to comply with the requirement of the Facility Agreement in respect of one financial indicator. ZTE HK has applied to the lending banks for exemption from early loan repayment, and such application for exemption will take effect when the approval of no less than 2/3 of facility amount is granted. As at 27 March 2013, approval has been obtained in respect of 58% of the facility amount. Taking into consideration of the Group's liquidity, the operating conditions and liquid capital of ZTE HK (amounting to HKD19.7 billion as at the end of the 2012 reporting period) and the status of negotiations with the lending banks, the Company is of the view that the matter will not have any significant impact of the Group's operations.

(XIV) SIGNIFICANT CONNECTED TRANSACTIONS

1. Significant connected transactions under domestic laws and regulations

(1) Connected transactions in the ordinary course of business

The ordinary connected transactions of 2012 disclosed in the following table represented connected transactions that reached the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price (RMB)	Domestic announcement date	Domestic announcement index
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited, Shenzhen Zhongxing Xinyu FPC Company Limited, Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of various products such as cabinets, cases, distribution frames, flexible circuit boards and shelters by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Prices at which the Group made purchases from the connected parties were not higher than prices at which similar products of comparable quantity are sold to other users by the connected parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring area. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms.	Cabinets and accessories: RMB1–RMB31,000 per unit and Cases and accessories: RMB1–RMB17,000 per unit depending on level of sophistication; Distribution frames and accessories: RMB2-RMB150,000 per unit depending on level of sophistication and functional features; flexible circuit boards: RMB0.3–RMB50 per unit depending on measurement, technical parameters and functional features; Shelter: RMB20,000–RMB100,000 per unit, depending on measurement, materials used and configuration.	51,136	1.11%	Commercial acceptance bill	N/A	28 October 2009; 30 December 2009	Announcement No. 200942 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"; Announcement No. 200950 "Announcement on the Resolutions of the Second Extraordinary General Meeting of 2009
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas and radio frequency transmitter by the Company from the connected party		Communication antenna: RMB320–RMB2,500 per piece and radio frequency Transmitter: RMB350–4,100 per unit, depending on technical parameters and functional features.	27,810.6	0.60%	Commercial acceptance bill	N/A	28 October 2011	Announcement No. 201144 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Huatong Technology Company Limited (華通科技有限公司)	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230-320 per head/day	5,212.8	0.11%	Tele-transfer	N/A	27 June 2012	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited (中興軟件技術(南昌)有限公司)	A company the majority of board members of which can be controlled by another company for which the Chairman of the Company co-acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Intermediate-grade engineer at a price ranging from RMB330–450 per head/day; junior engineer at a price ranging from RMB230–320 per head/day	2,139.3	0.05%	Tele-transfer	N/A		
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Purchase of hotel service	The purchase of hotel services by the Company from the connected party		Single room: RMB240–380/night; double room: RMB240–380/night; suite: RMB500–600/night	1,682.5	0.04%	Tele-transfer	N/A		
Zhongxing Development Company Limited	A company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m. by the Company from the connected party		Monthly rent of RMB115/sq.m. (property management undertaken by ZTE and no management fees are payable)	4,064.51	6.23%	Tele-transfer	N/A	28 April 2010	Announcement No. 201051 "Announcement on Connected Transactions"
Chongqing Zhongxing Development Company Limited	Subsidiary of the Company for which the Chairman of the Company co-acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party		Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and cafeteria respectively and monthly management fee of RMB2.5/sq.m.	892.97	1.37%	Tele-transfer	N/A	14 December 2011	Announcement No. 201153 "Announcement on Connected Transactions"
Zhongxing Hetai or its subsidiaries	Subsidiary of the company for which the Chairman of the Company co-acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Rent was RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of amortization of assets.	1,409.54	34.59%	Tele-transfer	N/A	27 June 2012	Announcement No. 201234 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on Shenzhen Stock Exchange"
Total				**–**	**–**	**94,348.22**	**N/A**	**–**	**–**	**–**	**–**

Material Matters

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 Second Extraordinary General Meeting of 2009 of the Company convened on 29 December 2009, it was considered and approved that the estimated purchases from Zhongxingxin and its subsidiaries, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou by ZTE Kangxun, a subsidiary of the Company in 2012 be capped at RMB1.69 billion (before VAT); At the Twenty-third Meeting of the Fifth Session of the Board of Directors held on 27 October 2011, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by ZTE Kangxun, a subsidiary of the Company in 2012 be capped at RMB600 million (before VAT); At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2012 be capped at RMB90 million and RMB42 million, respectively; At the Third Meeting of the Fifth Session of the Board of Directors held on 27 April 2010, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB44.16 million; At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB11.40 million;

	At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, it was considered and approved that the estimated purchase of hotel services from Zhongxing Hetai or its subsidiaries by the Company for the period from 1 July 2012 to 30 June 2013 be capped at RMB90 million, and the estimated lease of property and related equipment and facilities to Zhongxing Hetai or its subsidiaries by the Company for the period from 1 July 2012 to 30 June 2013 be capped at RMB46 million; 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	N/A

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

At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors held on 28 December 2012, the following continuing connected transactions were considered and passed:

1 Purchases by the Group from connected party Zhongxingxin and its subsidiaries from 2013 to 2015 capped at RMB900 million, RMB1,000 million and RMB1,100 million (before VAT) respectively;

2 Purchases by the Group from connected party Mobi Antenna from 2013 to 2015 capped at RMB600 million, RMB800 million and RMB900 million (before VAT) respectively;

3 Purchases by the Group from connected party Huatong for 2013 capped at RMB78 million (before VAT);

4 Purchases by the Group from connected party Nanchang Software for 2013 capped at RMB33 million (before VAT);

5 The “Property Leasing Contract” between the Company and connected party Zhongxing Development for a term of 2 years from 18 April 2013 to 17 April 2015 with annual rental capped at RMB50.80 million.

For details please refer to the “CONTINUING CONNECTED TRANSACTIONS — PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN” and “Overseas Regulatory Announcement” published by the Company on 28 December 2012.

Material Matters

(2) Connected transactions involving acquisitions and disposals of assets

The Group did not conduct any connected transactions involving material asset acquisitions or disposals during the year. Connected transactions involving immaterial asset acquisitions or disposals disclosed by the Group are as follows:

Unit: RMB in ten thousands

Connected party	Nature of connection	Classification	Subject matter	Pricing principle	Book value of assets transferred	Assessed value of assets transferred	Fair market value	Transfer price	Settlement	Gain arising from the transfer of assets	Domestic announcement date	Domestic announcement index
Zhongxing Development	Mr. Hou Weigui, Chairman of the Company, was also chairman of Zhongxing Development	Disposal of assets	Disposal of 82% equity interests of Zhongxing Hetai to Zhongxing Development by the Company	The pricing was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012	The audited net assets of Zhongxing Hetai as at 30 April 2012 amounted to RMB30,697,600; net assets attributable to 82% equity interests amounted to RMB25,172,000.	N/A	N/A	2,517.4	50% of the consideration was paid within 3 days following the completion of registration of the transfer with authorities for the administration of industry and commerce; the remaining 50% was settled by 31 December 2012	0.2	27 June 2012	Announcement No. 201233 "Announcement on Connected Transactions"
Reason for the substantial difference between the transfer price and the book value or appraisal value				N/A								
Effect on the operating results and financial conditions of the Company				For details of the disposal of 82% equity interests in Zhongxing Hetai, please refer to relevant parts of the section headed "(IV) Asset Transactions" in this chapter.								

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

(4) Creditors and debtors with connected parties

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

Unit: RMB in ten thousands

		Provision of funds to connected parties						Provision of funds to listed company by connected parties					
Connected party	Nature of connection	Opening balance	Amount incurred during the period	Amount repaid during the period	Closing balance	Interest income	Interest expense	Opening balance	Amount incurred during the period	Amount repaid during the period	Closing balance	Interest income	Interest expense
Non-operating													
None	N/A	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total		–	–	–	–	–	–	–	–	–	–	–	–
Operating													
Shenzhen Zhongxing Xinyu FPC Company Limited	Subsidiary of the Company's controlling shareholder	–	–	–	–	–	–	3.1	–	–	3.1	–	–
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder	–	–	–	–	–	–	1.2	–	–	1.2	–	–
Shenzhen Zhongxing Information Technology Company Limited (深圳市中興信息技術有限公司)	Investee of shareholder of the Company's controlling shareholder	–	–	–	–	–	–	4.8	–	–	4.8	–	–
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company where senior management of the Company acted as director	–	–	–	–	–	–	5.3	–	–	5.3	–	–
Zhongxing Development Company Limited	Company where the Chairman of the Company acted as chairman	–	2,517.4	2,517.4	–	–	–	21.5	–	–	21.5	–	–
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Controlling shareholder of the Company	–	–	–	–	–	–	236.3	–	100.0	136.3	–	–
Shenzhen Smart Electronics Company Limited	Associate of the Company	–	–	–	–	–	–	–	74.2	74.2	–	–	–
深圳市中興昆騰有限公司	Majority-owned subsidiary of the Company's controlling shareholder	–	–	–	–	–	–	–	20.1	–	20.1	–	–
無錫鴻圖微電子技術有限公司	Associate of the Company	–	2,720.1	2,227.7	492.4	–	–	–	–	–	–	–	–
Sub-total		**–**	**5,237.5**	**4,745.1**	**492.4**	**–**	**–**	**272.2**	**94.3**	**174.2**	**192.3**	**–**	**–**
Total		**–**	**5,237.5**	**4,745.1**	**492.4**	**–**	**–**	**272.2**	**94.3**	**174.2**	**192.3**	**–**	**–**

Reasons for incurring creditors and debtors with connected parties	The Company's disposal of 82% equity interests in Zhongxing Hetai to Zhongxing Development and operating creditors and debtors between the Company and other connected parties.
Effect of creditors and debtors with connected parties on the operating results and financial conditions of the Company	None

Material Matters

(5) Except for the above, the Company had no other substantial connected transaction during the year

2. Continuing connected transactions under the Hong Kong Listing Rules

In accordance with Chapter 14A of the Hong Kong Listing Rules, the following connected transactions are required to be disclosed in this report. Connected transactions that also constitute connected transactions under HKFRSs are set out in Note 52 to the financial statements prepared under HKFRSs.

The Group has entered into connected transaction framework agreements with the following connected parties, and has fulfilled the requirements of reporting, announcement and/or shareholders' approval under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of each connected transaction. For details, please refer to the "Announcement on Continuing Connected Transactions", "Announcement on the Resolutions of the Second Extraordinary General Meeting of 2009", "Announcement on Continuing Connected Transactions", "Announcement on Continuing Connected Transactions", "Continuing Connected Transactions Tenancy Agreements Voluntary Announcement" and "Announcement on Continuing Connected Transactions — Provision of Financial Services" published on 27 October 2009, 29 December 2009, 27 October 2011, 27 April 2010, 13 December 2011 and 26 June 2012, respectively.

(1) Purchases of handset batteries by the Group from Ruide

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

The Company owned Ruide, a non-wholly owned subsidiary of the Company established on 27 April 2004, through Changfei under the laws of the PRC with limited liability. The other substantial shareholder of Ruide is Zhongxing Xindi with an approximately 23% interest. Zhongxing Xindi is a company established under the laws of the PRC with limited liability and is a non-wholly owned subsidiary of Zhongxingxin and is an associate (within the meaning of the Hong Kong Listing Rules) of Zhongxingxin. As Zhongxingxin is the controlling shareholder of the Company, Zhongxing Xindi constitutes a connected person of the Company as an associate of Zhongxingxin. Ruide is the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules.

Changfei holds 57.47% equity interests in Ruide. As considered and approved at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, the Company disposed of its 81% equity interests in Changfei to Guangdong All Access and CCBI. Registration of changes with the administration of industry and commerce was completed on 26 December 2012, with effect from which the Company ceased to hold any equity interests in Changfei and Ruide was no longer a non-wholly owned subsidiary nor a connected person of the Company.

- *Total transaction amount in 2012:*

Approximately RMB604,175,000

- *Pricing and other terms:*

At the Twenty-third Meeting of the Fifth Session of the Board of Directors of the Company held on 27 October 2011, the Directors approved the 2012 connected transaction framework agreement between the Group and Ruide in respect of the continuing purchase of handset batteries from Ruide by the Group. The purchase framework agreement shall be effective until 31 December 2012.The purchase cap for 2012 was RMB1,200 million (before VAT).

Ruide will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Ruide succeeds in its bid to supply to the Group, the Group will issue purchase orders from time to time to Ruide pursuant to the framework agreement entered into with Ruide. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contract details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Ruide for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

- *Purpose of the transaction:*

The Group's handset products have become one of the major sources of revenue for the Company. The Directors of the Company consider it an important strategy of the Group to have a co-operative and reliable supplier for handset batteries. The Group's investment in Ruide was made with this purpose in mind. Through the Group's qualification and bidding procedures, Ruide was selected as one of our suppliers.

(2) Purchase of liquid crystal modules (LCMs) by the Group from Lead

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

The Company owned Lead, a wholly-owned subsidiary of the Company established on 17 June 2003, through Changfei. Zhongxingxin is a substantial shareholder of Lead with a 22.5% interest. Given that Zhongxingxin is a substantial shareholder of the Company and is therefore a connected person at the level of the Company and is a substantial shareholder of Lead, Lead constitutes the Company's connected person pursuant to Rule 14A.11(5) of the Hong Kong Listing Rules.

Changfei holds 62.5% equity interests in Lead. As considered and approved at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, the Company disposed of its 81% equity interests in Changfei to Guangdong All Access and CCBI. Registration of changes with the administration of industry and commerce was completed on 26 December 2012, with effect from which the Company ceased to hold any equity interests in Changfei and Lead was no longer a non-wholly owned subsidiary nor a connected person of the Company.

- *Total transaction amount in 2012:*

Approximately RMB638,044,000

- *Pricing and other terms:*

At the Twenty-third Meeting of the Fifth Session of the Board of Directors held on 27 October 2011, the Directors approved the 2012 connected transaction framework agreement between the Group and Lead in respect of the continuing purchase of LCMs from Lead by the Group. The purchase framework agreement shall be effective until 31 December 2012. The purchase cap for 2012 was RMB1,050 million (before VAT).

Lead will still be required to undergo the Group's qualification and bidding procedures for the selection of suppliers. If Lead succeeds in its bid to supply to the Group, the Group will issue purchase orders from time to time to Lead pursuant to the framework agreement entered into with Lead. Purchase orders will specify product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contract details. Prices will be arrived at after arm's length negotiations, with reference to the prices quoted by Lead for sales of similar quantities of the same or similar products to independent third parties at the relevant time.

Material Matters

- *Purpose of the transaction:*

The Group expects handset sales to continue to form a major part of the Company's business in the future. In order to capture this growing market demand, the Group requires steady, reliable and quality supplies of LCMs for its production of handsets. As the production of these LCMs involves merely low value-added assembly work, there are few suppliers of raw materials and components that are able to undertake such large-scale production as required by the Company for the prices we offer. Lead was established to handle large-scale production at low unit cost and to specialize in the supply of LCMs. The Company believes that it has also been able to provide the Group a quick production turnaround time, consistent product quality and timely delivery. The Company has taken a majority stake in Lead. The Directors consider that having Lead as the Company's subsidiary allows the Group to secure steady supplies of quality LCMs in large volumes from a co-operative, reliable and specialized supplier that would not otherwise be easily available from other suppliers for comparable prices.

(3) Purchases of raw materials and components comprising primarily telecommunications cabinets, cases and racks, distribution frames and shelters by ZTE Kangxun from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou

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

Zhongxingxin is the largest shareholder of the Company.

Given that Zhongxing Xindi is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xindi is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Listing Rules. Zhongxingxin holds a 70% stake in Zhongxing Xindi. Given that Zhongxingxin is a controlling shareholder of the Company, Zhongxing Xindi, as an associate of Zhongxingxin, constitutes a connected person of the Company.

Given that Zhongxing Xinyu is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinyu is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Listing Rules. Zhongxingxin holds a 54.55% stake in Zhongxing Xinyu. Given that Zhongxingxin is a controlling shareholder of the Company, Zhongxing Xinyu, as an associate of Zhongxingxin, constitutes a connected person of the Company.

Given that Zhongxing Xinzhou is a non-wholly owned subsidiary of Zhongxingxin, Zhongxing Xinzhou is an associate of Zhongxingxin as defined under the provisions of the Hong Kong Listing Rules. Zhongxingxin holds a 70% stake in Zhongxing Xinzhou. Given that Zhongxingxin is a controlling shareholder of the Company, Zhongxing Xinzhou, as an associate of Zhongxingxin, constitutes a connected person of the Company.

- *Total transaction amount in 2012:*

Approximately RMB511,360,000

- *Price and other terms:*

At the Thirtieth Meeting of the Fourth Session of the Board of Directors held on 27 October 2009 and the Second Extraordinary General Meeting of 2009 held on 29 December 2009, the "2010–2012 Purchase Framework Agreement" between ZTE Kangxun (a subsidiary of the Company) on the one hand and Zhongxingxin (a connected person) and its subsidiaries Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou on the other hand in respect of the purchase of various products such as cases, cabinets, distribution frames, flexible circuit boards and shelters effective from 1 January 2010 to 31 December 2012 with the purchase amounts for 2010–2012 capped at RMB1,000 million, RMB1,300 million and RMB1,690 million (before VAT) respectively was approved.

A potential supplier must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become an approved supplier of the Group. Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were selected through the Group's qualification and bidding procedures as described above. The Directors are of the view that the purchases of raw materials and components from Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou were conducted in accordance with the said qualification and bidding procedure of the Group. The Directors further confirm that the prices of the said purchases were determined on an arm's length basis and were consistent with the prices charged by independent third party suppliers. The Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the products. During the term of the non-exempt connected transaction framework agreement, ZTE Kangxun issues purchase orders to the supplier, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery times, places and modes, as well as contract details.

The prices were determined after arm's length negotiations by reference to prices at which identical or similar products in similar quantities were sold around the same time to independent third parties by Zhongxingxin, Zhongxing Xindi, Zhongxing Xinyu and Zhongxing Xinzhou. The annual cap for 2012 was estimated at RMB1,690 million (before VAT).

- *Purpose of the transaction:*

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

- *Others:*

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

Material Matters

(4) For details of the implementation of connected transactions relating to the lease of properties by the Company from Zhongxing Development and Chongqing Zhongxing Development during 2012, please refer to the section headed "1. Significant connected transactions under domestic laws and regulations."

At the Thirty-first Meeting of the Fifth Session of the Board of Directors, it was approved that ZTE Kangxun and ZTE Microelectronics would reduce their respective capital by way of Juxian's disposal of its respective equity interests in the said companies, and that the Company would acquire from Juxian a 10% equity interest in Guangdong New Pivot. Following the completion of the aforesaid transaction and all registration of changes with industrial and commercial authorities on or before 28 September 2012 (and including), Juxian would no longer be interested in the three aforesaid companies and would cease to be a connected person of the Company from that date. Therefore, Zhongxing Development and Chongqing Zhongxing Development would no longer be connected persons of the Company under Hong Kong Listing Rules.

For a description of the connected relationship between the Group, Zhongxing Development and Chongqing Zhongxing Development, please refer to the Company's "Announcement of Resolutions of the Thirty-eighth Meeting of the Fifth Session of the Board of Directors" dated 28 December 2012.

During 1 January 2012 to 27 September 2012, the total lease payment payable by the Company to Zhongxing Development and Chongqing Zhongxing Development for their leasing properties are RMB30,095,000 and RMB6,612,000 respectively.

(5) Financial Services Provided by ZTE Group Finance to Ruide and Lead

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

Please refer to the sub-section headed "2. (1) and (2) of Continuing connected transactions under the Hong Kong Listing Rules" in this section.

- *Total transaction amount in 2012:*

	Actual Sales Information as at 31 December 2012	
Loan services	Maximum daily balance of all outstanding loans and discounted notes (including accrued interest and any applicable fees) granted by ZTE Group Finance to Ruide RMB67,000,000	Maximum daily balance of all outstanding loans and discounted notes (including accrued interest and any applicable fees) granted by ZTE Group Finance to Lead RMB88,922,000
Settlement service and other financial service	Service fee earned by ZTE Group Finance from Ruide RMB31,000	Service fee earned by ZTE Group Finance from Lead RMB46,000

Since the deposit of cash by Ruide and Lead with ZTE Group Finance is for the benefit of the Group conducted on normal commercial terms or terms more favorable to the Groups and is not pledged against assets of the Group, the Company was exempt from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.65 of the Hong Kong Listing Rules.

- *Pricing and other terms:*

At the Thirtieth Meeting of the Fifth Session of the Board of Directors held on 26 June 2012, the following financial services were approved by the Directors:

That the execution of the "2012 Financial Service Agreement" between ZTE Group Finance and Ruide, a connected person, with an estimated maximum balance of RMB369.27 million for loans and notes discounting services, daily outstanding loans and discounted notes (including accrued interests and any applicable fees) provided by ZTE Group Finance to Ruide in 2012 under the agreement and an estimated maximum service fee of RMB2 million for the provision of settlement and other financial services from ZTE Group Finance to Ruide in 2012 be approved. That the execution of the "2012 Financial Service Agreement" between ZTE Group Finance and Lead, a connected person, with an estimated maximum balance of RMB612.138 million for loans and notes discounting services, daily outstanding loans and discounted notes (including accrued interests and any applicable fees) provided by ZTE Group Finance to Lead in 2012 under the agreement and an estimated maximum service fee of RMB2 million for the provision of settlement and other financial services from ZTE Group Finance to Lead in 2012 be approved.

ZTE Group Finance accepted deposits from Ruide and Lead with interest at rates to be determined with reference to the relevant rates quoted by the PBOC. In the event the relevant rates quoted by the PBOC were not applicable, ZTE Group Finance was required to pay interest to the connected party at a rate not higher than that quoted by other independent financial institutions.

ZTE Group Finance provided loans, discounted notes and other financing services to Ruide and Lead. Interest rates for loans and discounted notes payable by Ruide or Lead depended on the terms of the loan agreements or discounted notes agreements (as the case may be) between the parties and were subject to the relevant guidelines and regulations of the PBOC. To comply with such guidelines and regulations, ZTE Group Finance set its interest rates at the prevailing market rate with reference to the standard rates quoted by the PBOC from time to time.

The service fees for settlement services provided by ZTE Group Finance to Ruide and Lead were charged with reference to the applicable rates set by the PRC government and the service fees for other financial services were charged upon provision of such services at rates which were not lower than that those charged by other independent financial institutions in the PRC.

- *Purpose of the transaction:*

The provision of such services by ZTE Group Finance to Ruide and Lead is aimed at supporting the trading business between Ruide or Lead and the Group and the associated risks can be reduced by pledge over receivables provided by Ruide and/or Lead.

By providing financial services to connected persons like Ruide and Lead, ZTE Group Finance will benefit from economies of scale and flexibility. Through ZTE Group Finance, the capital surplus of certain members of ZTE Group can be transferred to other members with capital deficiency problem, so that can maximize the efficient use of funding of ZTE Group. Also, through ZTE Group Finance, ZTE Group can participate in interbank leading and access to low cost funds which can reduce the overall financing cost of ZTE Group and thus benefit ZTE Group and the shareholders as a whole.

Note: The ZTE Group means the Company and certain of its domestic subsidiaries, associates and joint ventures which are business entities in fulfillment of basic operating conditions in accordance with the standard form of articles of association and established by law and which have applied to and been approved by the Board of Directors of the Company to become a member of the ZTE Group, details of the members of the ZTE Group can be referred to the "Announcement of Resolutions of the Eleventh Meeting of the Fifth Session of the Board of Directors" published on 12 October 2010 and "Announcement of Resolutions of the Twenty-ninth Meeting of the Fifth Session of the Board of Directors" published on 25 April 2012

Material Matters

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

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

(7) ***The auditors of the Company have reviewed the connected transactions and confirmed to the Board of Directors of the Company that the connected transactions were:***

- approved by the Board of Directors of the Company;
- conducted in accordance with the pricing policies of the Company (where goods or services are being supplied or rendered by the Company);
- conducted in accordance with the terms of the agreements governing them; and
- within the relevant annual caps as disclosed by announcements.

(XV) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

2. Third-party guarantees during the year

Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)								
Guaranteed party	Date and code of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
Total amount of third-party guarantee approved during the reporting period (A1)		0		Total amount of third-party guarantee actually incurred during the reporting period (A2)				0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB68,867,600		Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)				RMB68,867,600

Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and code of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE (H.K.) Limited Note 1	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability assurance	6.6 years	No	No
Closed Joint-Stock Company CJSC TK Mobile Note 2	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia Note 2	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability assurance	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed	No	No
PT. ZTE Indonesia Note 2	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability assurance	3.5 years or from maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed, whichever later	No	No
ZTE Telecom India Private Limited Note 3	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under "Framework Agreement for Infrastructure Network Construction" is completed	No	No
ZTE Telecom India Private Limited Note 3	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance		No	No
ZTE (H.K.) Limited Note 4	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability	From 8 July 2011 until the date on which a period of 60 months has lapsed	No	No
ZTE France SASU Note 5	14 December 2011, 201152	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance of obligations of ZTE France under "SMS Contract" and "PATES Contract" expire or terminate (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		0		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)				0
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB6,695,340,700		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)				RMB6,151,627,900

Material Matters

Total amount guaranteed by the Company (sum of the two categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1)	0	Total amount of guarantee actually incurred during the reporting period (A2+B2)	0
Total amount of guarantee approved as at the end of the reporting period (A3+B3) Note 1	RMB6,745,340,700	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) Note 1	RMB6,201,627,900
Total amount of guarantee (A4+B4) as a percentage of net assets of the Company			28.84%
Including:			
Amount of guarantee provided on behalf of shareholders, de facto controllers and their connected parties (C)			0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)			RMB6,151,627,900
Amount of total guarantee exceeding 50% of net assets (E)			0
Aggregate amount of the three guarantee amounts stated above (C+D+E)			RMB6,151,627,900
Statement on potential joint liability involved in outstanding guarantees			For details of the progress of the joint liability guarantee for an amount of not more than USD900 million provided by the Company in respect of the facility agreement of ZTE HK, its wholly-owned subsidiary, please refer to "(XIII) Progress of the facility agreement" in this chapter.
Statement on provision of guarantee to third parties in violation of stipulated procedures			N/A

Note 1: Guarantee provided by ZTE HK, a wholly-owned subsidiary of the Company, in the form of a standby letter of credit backed by its bank credit facility, while the bank credit facility of ZTE HK is guaranteed by the Company. In effect of the aforesaid two guarantees, the Company is the ultimate guarantor and Benin Telecoms S.A. ("Benin Telecoms") is the ultimate party being guaranteed, for an amount of USD3 million. As the gearing ratio of Benin Telecoms was in excess of 70%, the aforesaid guarantee was subject to consideration and approval by the Board of Directors and the general meeting of the Company in accordance with requirements of relevant laws and regulations. These two guarantees have been treated as the same guarantee in the calculation of the sum of the total amount of guarantee approved as at the end of the reporting period and the total amount of guarantee actually incurred as at the end the reporting period.

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

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

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

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

Note 6: Being the book exchange rate of the Company as at 31 December 2012. Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1154. Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.2892. Guaranteed amounts denominated in Euro dollars are translated at the exchange rate of EUR1 to RMB8.1618.

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

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. Timothy Alexander Steinert as follows:

(1) As at 31 December 2012, the fund transfer between the Company and the controlling shareholder and other connected parties represent activities in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties have appropriated the Company's non-operating funds or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have reviewed the "Notice regarding Certain Issues on the Regulation of Fund Transfer 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) The Company did not provide any new guarantees in 2012. The balance of guarantees provided by the Company as at 31 December 2012 was approximately RMB6,201,627,900, accounting for approximately 28.84% of the Company's shareholders' equity attributable to the parent company as at 31 December 2012. Total amount of third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries) during the reporting period of 2012 was zero. The balance of third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries) as at the end of the reporting period of 2012 was approximately RMB68,867,600. Total amount of guarantees provided on behalf of subsidiaries by the Company during the reporting period of 2012 was zero. The balance of third-party guarantees provided on behalf of subsidiaries by the Company as at the end of the reporting period of 2012 was approximately RMB6,151,627,900. For details of the third party guarantees of the Company, please refer to the section headed "2. Third-party guarantees of the Group during the year" in this section. The information on guarantees disclosed in the 2012 Annual Report of the Company was true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.

(3) As at 31 December 2012, there were no evident indications that the Company might have incurred guarantee liabilities as a result of default on debts by any guaranteed parties under the Company's third-party guarantees.

(4) 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

Material Matters

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 to regulate third-party guarantees of the Company and effectively control risks arising therefrom.

(5) The Independent Non-executive Directors of the Company have reviewed the "Notice regarding Certain Issues on the Regulation of Financial 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 2012 are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

4. Performance of material contracts entered into during or prior to the year

During the year, the Company and Qualcomm Incorporated ("Qualcomm"), a U.S. company, entered into the "Framework Agreement of Chipset Procurement for Calendar Years 2012–2015," pursuant to which the Company proposed procurements from Qualcomm with an aggregate value of no less than USD4 billion in calendar years 2012–2015. During the year, the Company and Broadcom Corporation ("Broadcom"), a U.S. company, entered into the "Framework Agreement of Chipset Procurement for Calendar Years 2012–2014," pursuant to which the Company proposed procurements from Broadcom with an aggregate value of no less than USD1 billion in calendar years 2012–2014. For details please refer to the "Announcement of the Board of Directors" published by the Company on 20 February 2012.

Details of material contracts entered into during the year and material contracts entered into prior to and subsisting during the year are set out as follows:

No.	Contents of material contracts	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	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	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	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	By reference to market prices	Not less than USD4 billion	No	Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012–2014 between the Company and Broadcom	By reference to market prices	Not less than USD1 billion	No	Under normal progress

(XVI) UNDERTAKING

1. **There were no undertakings by the Company and its directors, supervisors, senior management and shareholders interested in 5% or more of the shares in the Company and de facto controllers.**

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

☐ Applicable ✓ N/A

(XVII) APPOINTMENT OF AUDITORS

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

Ernst & Young Hua Ming has been appointed the Company's PRC auditor for 8 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 9 consecutive years since 2004. The undersigning accountants of Ernst & Young Hua Ming are Mr. Li Yuxing and Ms. Fu Jie. Mr. Li Yuxing has been providing audit services to the Company for 4 years and the year under review was the third year for which he acted in the capacity of undersigning accountant. Ms. Fu Jie has been providing audit services to the Company for 5 years and the year under review was the first year for which she acted in the capacity of undersigning accountant.

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2012 were paid in a consolidated manner, whereby an aggregate audit fee of RMB5,736,800 was paid to Ernst & Young Hua Ming and Ernst & Young.

At the Twenty-seventh Meeting of the Fifth Session of the Board of Directors of the Company on 28 March 2012, it was approved that Ernst & Young Hua Ming be appointed the Company's internal control auditor for 2012. The amount of 2012 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB808,000.

In 2012, Ernst & Young Hua Ming provided tax advisory services to the Company and its subsidiary Shenzhen Zhongxing Supply Chain Co., Ltd. with a fee of RMB180,000. Ernst & Young Hua Ming provided procedural consultation and examination services in respect of the bond issue of the Company with a fee of RMB180,000. Ernst & Young provided tax return and tax advisory services to the Company and its subsidiary ZTE HK, with a fee of HKD99,500. Save as aforesaid, the Company did not pay any remuneration in connection with other significant non-audit services to Ernst & Young Hua Ming and Ernst & Young.

Item	Amount	Auditor
Audit fees 2012	RMB5,736,800	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2012	RMB808,000	Ernst & Young Hua Ming
Fees for tax advisory services 2012	RMB180,000	Ernst & Young Hua Ming
Fees for procedural consultation and examination services in respect of the bond issue 2012	RMB180,000	Ernst & Young Hua Ming
Fees for tax return and tax advisory services 2012	HKD99,500	Ernst & Young

Material Matters

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

(XIX) SIGNIFICANT EVENTS

During the year, no significant events as specified under Rule 67 of the Securities Law of the People's Republic of China and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and events that were significant in the judgment of the Board of Directors occurred to the Company.

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

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	At the beginning of the year		Increase/decrease as a result of the change during the year (+, –)					At the end of the year	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others Note	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**17,455,975**	**0.51%**	**—**	**—**	**—**	**(6,195,418)**	**(6,195,418)**	**11,260,557**	**0.33%**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	9,125,893	0.27%	—	—	—	(6,589,151)	(6,589,151)	2,536,742	0.08%
Comprising: domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	9,125,893	0.27%	—	—	—	(6,589,151)	(6,589,151)	2,536,742	0.08%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	8,330,082	0.24%	—	—	—	393,733	393,733	8,723,815	0.25%
II. Shares not subject to lock-up	**3,422,622,045**	**99.49%**	**—**	**—**	**—**	**6,195,418**	**6,195,418**	**3,428,817,463**	**99.67%**
1. RMB ordinary shares	2,793,036,600	81.19%	—	—	—	6,195,418	6,195,418	2,799,232,018	81.37%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	629,585,445	18.30%	—	—	—	—	—	629,585,445	18.30%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**3,440,078,020**	**100.00%**	**—**	**—**	**—**	**—**	**—**	**3,440,078,020**	**100.00%**

Note: (1) Following consideration and approval at the Thirty-seventh Meeting of the Fifth Session of the Board of Directors, the Third Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company was completed on 24 December 2012 with a total of 6,589,151 Subject Shares being unlocked. For details, please refer to the "Announcement of the Completion of the Third Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" published by the Company on 20 December 2012; (2) 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.

Changes in Shareholdings and Information of Shareholders

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

Unit: Shares

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 Dec 2011	Number of shares released from lock-up during the year Note 1, Note 2	Increase in the number of shares subject to lock-up during the year Note 3	Number of shares subject to lock-up at the end of the year	Lock-up conditions	Date of unlocking
1	Hou Weigui	890,603	0	82,500	973,103	Restricted senior management shares	Note 1
2	Chen Jie	558,436	0	37,500	595,936	Restricted senior management shares	Note 1
3	Ni Qin	532,920	0	15,000	547,920	Restricted senior management shares	Note 1
4	Yin Yimin	474,624	0	0	474,624	Restricted senior management shares	Note 1
5	Zeng Xuezhong	425,700	0	0	425,700	Restricted senior management shares	Note 1
6	Fan Qingfeng	421,874	0	0	421,874	Restricted senior management shares	Note 1
7	Xu Huijun	480,709	97,500	37,500	420,709	Restricted senior management shares	Note 1
8	Pang Shengqing	391,051	0	0	391,051	Restricted senior management shares	Note 1
9	Ye Weimin	387,248	0	0	387,248	Restricted senior management shares	Note 1
10	Zhang Taifeng	298,967	0	77,100	376,067	Restricted senior management shares	Note 1
11	Others	12,593,843	6,621,418	273,900	6,246,325	Restricted senior management shares and restricted shares under share incentive scheme	Note 1, Note 2
	Total	**17,455,975**	**6,718,918**	**523,500**	**11,260,557**	—	—

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

Note 2: Unlocked in accordance with the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) of ZTE Corporation.

Note 3: Certain Directors, Supervisors and senior management of the Company had acquired A shares of the Company in the secondary market. In accordance with relevant domestic regulations, up to 25% of the newly-held unrestricted shares may be transferred by the Directors, Supervisors and senior management during the year.

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

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

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

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

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

5. The Company completed the issue of the 2012 corporate bonds (tranche 1) on 15 June 2012. The finalized online and offline issue volumes amounted to RMB200 million and RMB5,800 million, respectively, and the coupon interest rate was 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".

6. The Third Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company was completed on 24 December 2012, which resulted in a change in the structure but not the total amount of the share capital. For details, please refer to the "Announcement of the Completion of the Third Unlocking of Subject Shares under the Second Award of the Phase I Share Incentive Scheme" published by the Company on 20 December 2012.

7. 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 YEAR

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

	Total numbers of shareholders
As at 31 December 2012	136,777 shareholders (of which 136,414 were holders of A shares and 363 were holders of H shares)
As at 21 March 2013, namely 5 trading days prior to the publication of the annual results	129,609 shareholders (of which 129,249 were holders of A shares and 360 were holders of H shares)

Shareholdings of top ten shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/ decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Zhongxingxin	State-owned shareholders	30.76%	1,058,191,944	0	0	None
2. HKSCC Nominees Limited	Foreign shareholders	18.27%	628,357,601	+177,778	0	Unknown
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	2.36%	81,159,637	+3,823,798	0	Unknown
4. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	1.72%	59,043,306	+38,913,627	0	Unknown
5. CITIC Trust Co.,Ltd. — Wealth Management 06	Others	1.69%	58,194,000	0	0	Unknown
6. Hunan Nantian (Group) Co., Ltd	State-owned shareholders	1.09%	37,450,609	0	0	Unknown
7. Agricultural Bank of China — Franklin Sealand Flex Cap Stock Fund	Others	1.05%	36,291,326	+20,085,307	0	Unknown
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.99%	33,926,577	−95,000	0	Unknown
9. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	Others	0.88%	30,209,476	+1,718,551	0	Unknown
10. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	0.74%	25,569,044	0	0	Unknown

Shareholdings of top ten holders that were not subject to lock-up		
Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,357,601	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	81,159,637	A shares
4. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	59,043,306	A shares
5. CITIC Trust Co.,Ltd. — Wealth Management 06	58,194,000	A shares
6. Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
7. Agricultural Bank of China — Franklin Sealand Flex Cap Stock Fund	36,291,326	A shares
8. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	33,926,577	A shares
9. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	30,209,476	A shares
10. China Life Insurance (Group) Company — Traditional — General Insurance Products	25,569,044	A shares
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	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 not subject to lock-up listed above. 2. The 3rd and 8th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. The 10th ranking shareholder was managed by China Life Insurance Company (Group) Limited, the controlling shareholder of China Life Insurance Company Limited. 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 are not subject to lock-up.	

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

Note 2: Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.76% of the Company's shares, during the year are as follows:

Name of shareholder	Increase/ decrease (+/–) of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	0	1,058,191,944	A shares	0	1,058,191,944	None

2. Controlling shareholder of the Company

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

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

As at the date of this report, Zhongxingxin's 2012 annual audit work has yet to be completed. Unaudited data are as follows: operating revenue, net profit and net cash flow from operating activities of Zhongxingxin for 2012 amounted to approximately RMB406 million, RMB171 million and RMB-454 million, respectively. As at 31 December 2012, total assets and total liabilities amounted to approximately RMB6,630 million and RMB1,318 million, respectively. In future, Zhongxingxin will build an innovative investment group company engaged in diversified capital applications with a primary focus on innovative technologies and services in close tandem with principal economic activities in China.

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

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

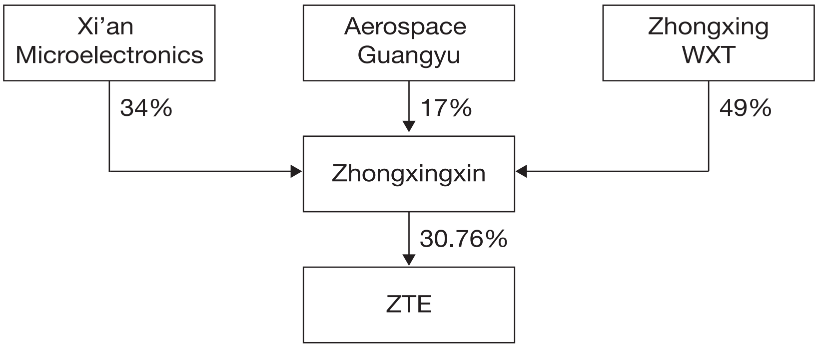
The controlling shareholder of the Company, Zhongxingxin was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics,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

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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Xie Weiliang and the registered capital amounts to RMB17,950,000. Its organization number is 19217503-1. The scope of business includes aerospace technology products, mechanical products, electrical appliance products, apparatuses and instruments; electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, Chinese-manufactured automobiles (except sedans), raw materials for textile, raw materials for chemical fibre, apparel, textile and warehousing. (Import and export operations are conducted in accordance with relevant regulations). Import and export operations (which are conducted in accordance with Shen Mao Jin [2000] No. 50 Qualifications Certificate).

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

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2012:



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

Changes in Shareholdings and Information of Shareholders

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

As at 31 December 2012, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shareholding	Approximate shareholding as a percentage (%) of: Total share capital	Relevant class of shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Zhongxing WXT	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Xi'an Microelectronics	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
China Aerospace Electronics Technology Research Institute	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
CASC	Interest of controlled corporation	1,058,191,944 A shares (L)	30.76(L)	37.65(L)
Wellington Management Company, LLP	Investment manager	52,971,105 H shares (L)	1.54(L)	8.41(L)
The Capital Group Companies, Inc.	Interest of controlled corporation	52,924,400 H shares (L)	1.54(L)	8.41(L)
Deutsche Bank Aktiengesellschaft	Beneficial owner, investment manager and person holding interest of guarantee on shares	52,821,356 H shares (L)	1.54(L)	8.38(L)
	Beneficial owner and person holding interest of guarantee on shares	44,238,772 H shares (S)	1.29(S)	7.02(S)
JPMorgan Chase & Co.	Beneficial owner, investment manager and approved lending agent	51,548,770 H shares (L)	1.50(L)	8.19(L)
	Beneficial owner	12,341,208 H shares (S)	0.36(S)	1.96(S)
	Approved lending agent	38,256,948 H shares (P)	1.11(P)	6.08(P)
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
BlackRock, Inc.	Interest of controlled corporation	31,965,480 H shares (L)	0.93(L)	5.07(L)
	Interest of controlled corporation	7,049,233 H shares (S)	0.20(S)	1.12(S)

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

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

Save as disclosed above, as at 31 December 2012, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

6. Purchase, sale or redemption of securities

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

7. Public float

On the basis of publicly available information known to the Board of Directors, the Company's public float is in compliance with the minimum public float requirement of Hong Kong Listing Rules as at the latest practicable date prior to the publication of this report.

Directors, Supervisors, Senior Management and Employees

(I) BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Biography of Directors

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

Mr. Lei Fanpei, born 1963, graduated from Northwestern Polytechnical University in 1987 majoring in solid rocket engine. He holds a doctorate degree in engineering and the title of research fellow. He worked at the Ministry of Aerospace Industry from 1987 to 2002 and became the head of the Sixth Research Institute of China Aerospace Science and Technology Corporation in April 2002. He has been deputy general manager of China Aerospace Science and Technology Corporation since 2005 and was Vice Chairman of the Company from March 2010 to February 2012. Mr. Lei has substantial experience in management and business operations.

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

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

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

Directors, Supervisors, Senior Management and Employees

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

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

Mr. Shi Lirong, born 1964, is Executive Director and President of the Company. Mr. Shi graduated from Tsinghua University in 1984 majoring in wireless and information technology with a bachelor's degree and Shanghai Jiaotong University in 1989 majoring in telecommunications and electronic engineering with a master's degree, and currently holds the title of senior engineer. Mr. Shi served as an engineer and head of the production department in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was deputy general manager of Zhongxingxin. He was in charge of the Company's overall marketing operations from 1997 to 2007 and, since 2007, the Company's global sales. He has been Executive Director of the Company since February 2001 and President of the Company since March 2010. Mr. Shi has many years of experience in the telecommunications industry and over 22 years of management experience.

Mr. Yin Yimin, born 1963, is Executive Director of the Company. Mr. Yin graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a master's degree in engineering, majoring in telecommunications and electronic systems, and currently holds the title of senior engineer. Mr. Yin had served as a manager of the research and development department of Shenzhen Zhongxing Semiconductor Co., Ltd. since 1991, and as deputy general manager of Zhongxingxin between 1993 and 1997. From 1997 to March 2010 he served as the Company's Vice President, Senior Vice President and President, being in charge of different divisions such as research and development, marketing, sales and handsets operations. He has been Executive Director of the Company since November 1997. He has many years of experience in the operation of telecommunications business and over 22 years of management experience.

Mr. He Shiyou, born 1966, is Executive Director and Executive Vice President of the Company currently in charge of the Company's handset business. Mr. He graduated from Beijing University of Posts and Telecommunications in 1990 with a master's degree in engineering, specialising in electromagnetic field and microwave technology and currently holds the title of senior engineer. Mr. He joined Zhongxingxin in 1993 and had since served as chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's Vice President from 1998 to 1999, responsible for divisions such as research and development and marketing. Since 1999, he has served as a Senior Vice President of the Company responsible for Sales Division II and the Handset Division of the Company. He has been Executive Director of the Company since February 2001. He has many years of experience in the telecommunications industry as well as over 20 years of management experience.

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

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

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

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

Directors, Supervisors, Senior Management and Employees

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

2. Biography of Secretary to the Board of Directors/Company Secretary

Mr. Feng Jianxiong, born 1974, is the Secretary to the Board of Directors and Company Secretary of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor's degree in economics, majoring in international finance, and from CEIBS in 2012 with a master's degree in Business Administration. He joined Zhongxingxin, controlling shareholder of the Company, in July 1996, and has been the Secretary to the Board of Directors of the Company since 2000, with spells as heads of the Investment Division, Securities and Finance Division and Securities and Investor Relations Division of the Company during the period. Mr. Feng has many years of experience in the telecommunications industry and over 13 years of management experience.

3. Biography of Supervisors

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

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

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

Ms. Wang Yan, born 1965, is Supervisor of the Company. Ms. Wang graduated from the Department of Management of Northeast Industrial Institute in July 1988, majoring in Industrial Accounting, with a bachelor's degree in engineering. Ms. Wang was qualified as an accountant in the PRC in December 1992 and further obtained the qualification of senior accountant in the PRC in September 1999. She joined Zhongxingxin, controlling shareholder of the Company, in 1999 and had been deputy general manager and chief accountant of Zhongxingxin. She has been a director and deputy general manager of Shenzhen Zhongxing Micro Finance Co., Ltd. since 1 January 2011 and Supervisor of the Company since June 2005.

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

4. Biography of Senior Management

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

Mr. He Shiyou, Executive Vice President of the Company. Please refer to the section headed "Biography of Directors" for his biography.

Mr. Wei Zaisheng, born 1962, is currently Executive Vice President and Chief Financial Officer in charge of corporate finance and investment management of the Company. Mr. Wei obtained a master's degree in business administration from Peking University in 2004. He joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1988 and served as chief financial officer and assistant to the general manager of Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997. He was Senior Vice President of the Company from 1997 to 1999 and Executive Vice President of the Company in charge of the Financial System of the Company since 1999. He was appointed member of China Accounting Informatisation Committee and member of XBRL Regional Steering Committee (China) by the Ministry of Finance in November 2008. He is concurrently director of Zhongxingxin, controlling shareholder of the Company, and chairman of ZTE Group Finance Co. Ltd. Mr. Wei has many years of experience in the telecommunications industry and over 24 years of management experience.

Mr. Xie Daxiong, born 1963, was Executive Vice President of the Company from 2004 to 2012. Mr. Xie is a professor-grade senior engineer. He graduated from the Nanjing University of Science and Technology in 1986 with a master's degree in engineering, specialising in applied mechanics. Mr. Xie joined Zhongxingxin, controlling shareholder of the Company, in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie had been CDMA product manager and general manager of the Company's CDMA Division. Since 2004, he has been Executive Vice President of the Company in charge of the Technology Centre of the Company. As a national-level candidate of the talent programme, Mr. Xie is entitled to special government grants awarded by the State Council. He was also a recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Tian Wenguo, born 1969, has been Executive Vice President of the Company since 2005 and is currently in charge of the Sales System of the Company. Mr. Tian graduated from Harbin Institute of Technology in 1991 with a bachelor's degree in engineering, specialising in electromagnetic surveys and devices. In 2006, he graduated from Tsinghua University with a master's degree in business administration. Mr. Tian joined Zhongxingxin, controlling shareholder of the Company, in 1996. Mr. Tian had been manager of the Company's Chongqing Sales Office and general manager of the Southwest Region from 1997 to 2002 and Senior Vice President and general manager of Sales Division II of the Company from 2002 to 2005. Since 2005, he has been Executive Vice President of the Company in charge of Marketing and Operations System, Marketing System, Product Marketing System and Logistics System of the Company. Mr. Tian has many years of experience in the telecommunications industry and over 15 years of management experience.

Directors, Supervisors, Senior Management and Employees

Mr. Qiu Weizhao, born 1963, was Senior Vice President of the Company from 1998 to 2006. He has been Executive Vice President of the Company since 2007 and is currently in charge of Logistics and Administration Affairs of the Company. Mr. Qiu graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master's degree in engineering. Mr. Qiu was responsible for the Logistics System of the Company from 1998 to 2007, Human Resources and Administration System from 2008 to 2012 and Logistics and Administration since September 2012. Mr. Qiu has many years of experience in the telecommunications industry and over 24 years of management experience.

Mr. Fan Qingfeng, born 1968, has been Executive Vice President of the Company since March 2008. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree specialising in industrial electrical automation, and from Tsinghua University in 2006 with a master's degree in business administration. He joined Zhongxingxin in 1996. From 1997 to 2008, Mr. Fan acted as project manager of regional office, manager of regional office, regional deputy general manager, division deputy general manager and Senior Vice President of the Company. He has many years of experience in the telecommunications industry and over 15 years of management experience.

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

Mr. Zhao Xianming, born 1966, has been Senior Vice President of the Company since 2004 and is currently in charge of the Wireless Product Operation Division. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate degree in engineering. From 1991 to 1998, Mr. Zhao served as deputy director of the Communication Engineering Teaching and Research Office of Harbin Institute of Technology. He joined the Company in 1998 to be engaged in the research, development and management of CDMA products. He had been head of the research and development group, project manager and general product manager from 1998 to 2003. Since 2004, he has been Senior Vice President of the Company in charge of the CDMA Division. Since 2007, he has been Senior Vice President in charge of the Wireless Product Division. Mr. Zhao has many years of experience in the telecommunications industry and over 21 years of management experience.

Mr. Pang Shengqing, born 1968, has been Senior Vice President of the Company since 2005 and is currently in charge of the System Product Solution Operation Division of the Company. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin, controlling shareholder of the Company, in 1995. From 1998 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology and hardware systems. Mr. Pang was deputy general manager of the CDMA Division from 2001 to 2004 and general manager of Sales Division I of the Sales System of the Company from 2005 to December 2011. Since 2012 he has been general manager of System Product Solution Division of the Company. He has many years of experience in the telecommunications industry and over 14 years of management experience.

Mr. Zeng Xuezhong, born 1973, has been Senior Vice President of the Company since 2006 and is currently in charge of Sales Division III. Mr. Zeng graduated from Tsinghua University with a bachelor's degree in science, specialising in modern applied science, in 1996 and with an EMBA degree in 2007. Mr. Zeng joined Zhongxingxin, controlling shareholder of the Company, in 1996. From 1997 to July 2006, Mr. Zeng was the senior project manager, assistant to regional general manager, manager of Guiyang Office and manager of Kunming Office, deputy general manager and general manager of Sales Division II and Vice President of the Company. Since August 2006, he has been Senior Vice President of the Company in charge of Sales Division III. Mr. Zeng has many years of experience in the telecommunications industry and over 13 years of management experience.

Mr. Xu Huijun, born 1973, has been Senior Vice President of the Company since 2004 and is currently in charge of the Engineering Services Division of the Sales System. Mr. Xu graduated from Tsinghua University in 1998 with a master's degree in engineering, specialising in electronic engineering. He joined the Company in 1998 and had served as a project manager of the General Product Division and the head of Beijing Research Centre from 1998 to 2003. He has been Senior Vice President of the Company in charge of the General Product Division since 2004 and Senior Vice President of the Company in charge of Engineering Services Division of the Sales System since 2007. Mr. Xu has many years of experience in the telecommunications industry and over 14 years of management experience.

Mr. Ye Weimin, born 1966, has been Senior Vice President of the Company since 2001 and is concurrently acting as Principal Deputy General Manager of the Handset Product Division, and in charge of the Company's procurement work. Mr. Ye graduated from Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering, majoring in computer science and engineering. He graduated from Rennes-Shanghai Jiaotong University in 2007 with a doctor degree in business administration conferred by ESC Rennes School of Business, specialising in business administration. He joined Zhongxingxin, controlling shareholder of the Company, in 1994 and was involved in the research and development as well as engineering work of digital programme-control switches and mobile communication systems. From 1997 to 2001, he served as chief officer of the Central Laboratory, head of Quality Control Department and the Customer Services Department of the Mobile Division and deputy general manager of Sales Division III of the Company. From 2001 to 2007, he has been Senior Vice President of the Company in charge of the Mobile Division, Sales Division V, Handset Logistics Team and Procurement Tender Team. Mr. Ye has many years of experience in the telecommunications industry and over 20 years of intermediate to senior management experience.

Mr. Ni Qin, born 1959, was Senior Vice President of the Company from 1998 to 2012. Mr. Ni graduated from Shanghai School of Posts and Telecommunications in 1981, specialising in telecommunications. From 1981 to 1994, Mr. Ni carried out research and development work in Shanghai Postal and Telecommunication Research Institute No. 1. He served as head of Shanghai Research Institute of Zhongxingxin, controlling shareholder of the Company, from 1994 to 1997. Since 1998, he has been Senior Vice President of the Company in charge of the Access Product Division, Handset Division and IT construction. Mr. Ni has many years of experience in the telecommunications industry and over 18 years of management experience.

Directors, Supervisors, Senior Management and Employees

Mr. Wu Zengqi, born 1964, was Senior Vice President of the Company from 2007 to 2012. Mr. Wu graduated from Fudan University in 1990 with a master's degree in economics, specialising in global economics. He joined the Company in 1999 and had been the chief representative of the Libyan Office of Sales Division I, general manager of North Africa Region and general manager of North Africa Region of Sales Division V from 1999 to 2006. Since 2007, he has been general manager of Sales Division V of the Company. Mr. Wu has many years of experience in the telecommunications industry and over 13 years of management experience.

Mr. Zhu Jinyun, born 1972, has been Senior Vice President of the Company since 2009. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering, specialising in communications and electronic systems. He joined the Company in the same year to be engaged in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA Hardware Development Department, general project manager for various products under the CDMA Division and general project manager for WCDMA products. From 2009 to 2012, he was general manager of Sales Division IV of the Company. From 2013, he has been general manager of the Cloud Computing and IT Products Operations. Mr. Zhu has many years of experience in the telecommunications industry and over 13 years of management experience.

Mr. Zhang Renjun, born 1969, has been Senior Vice President of the Company since 2009 and is currently in charge of Sales Division I. Mr. Zhang graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2011, he had been deputy general manager of Sales Division I, deputy general manager of Sales Division IV, head of the MTO Department and director of the PMO Department, both under the Sales System, and general manager of Sales Division II. Mr. Zhang has many years of experience in the telecommunications industry and over 13 years of management experience.

Mr. Chen Jianzhou, born 1970, is Senior Vice President in charge of the Processes and Human Resources of the Company. Mr. Chen graduated from Tsinghua University in 1995 with a master's degree in engineering, majoring in signals and information systems. Mr. Chen joined the Company in 1995 and was involved in research and development as well as technical support. He was head of the Human Resources Centre of the Company from 1996 to 2003 and head of the ZTE University from 2003 to 2010. From October 1997 to February 2004, he acted as Supervisor of the Company. In 2011, he was Assistant to the President responsible for the Company's Architecture and Processes. Since 2012 he has been in charge of the Processes and Human Resources of the Company. Mr. Chen has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Wang Jiaran, born 1969, is currently general manager of Sales Division II of the Company in charge of Sales Division II under the Sales System. Mr. Wang graduated from Hunan University in 1992 with a bachelor's degree, majoring in computer science. Mr. Wang joined the Company in 1993 and was involved in domestic and international marketing. From 1993 to 2011 he had been manager of several offices under Sales Division III, chief representative of the Second Expansion Office for the South Africa Region and deputy general manager of Sales Division II. Since 2012 he has been general manager of Sales Division II under the Sales System. Mr. Wang has many years of experience in the telecommunications industry and over 16 years of management experience.

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

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

The effective shareholdings in the issued share capital of the Company held by and Subject Shares under the Share Incentive Scheme granted to the Directors, Supervisors and senior management of the Company and annual remuneration at the end of the year are as follows:

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

Directors, Supervisors, Senior Management and Employees

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

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

Note 3: Reduction or increase of shareholdings in accordance with "Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof".

Note 4: None of the Company's Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

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

☐ Applicable √ N/A

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

Name	Name of shareholder	Position in the shareholder	Commencement of term of office	Conclusion of term of office	Whether remuneration is received from shareholder entities
Xie Weiliang	Zhongxingxin	Chairman	April 2010	May 2013	No
	CASIC Shenzhen (Group) Company Limited	Director and general manager	February 2003	Incumbent	Yes
Zhang Junchao	Zhongxingxin	Vice chairman	April 2010	May 2013	No
	Xi'an Microelectronics	Legal representative	October 2003	Incumbent	No
Dong Lianbo	Zhongxingxin	Director	April 2010	May 2013	No
	CASIC Shenzhen (Group) Company Limited	Director and deputy general manager	February 2003	Incumbent	Yes
Zhang Taifeng	Zhongxingxin	Vice chairman	April 2010	May 2013	No
Wei Zaisheng	Zhongxingxin	Director	April 2010	May 2013	No

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

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Hou Weigui Note 1	Held positions in 15 subsidiaries including Zhongxing Software	Chairman	No
	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	China Aerospace Investment Holdings Ltd.	Director	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
Lei Fanpei Note 2	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	Beijing Shenzhou Aerospace Software Technology Co., Ltd.	Chairman	No
	China Astronautic Publishing House Co., Ltd.	Executive director	No
Zhang Jianheng Note 3	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

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial Company Limited	General manager	No
Wang Zhanchen	China Aerospace Times Electronics Co., Ltd	Vice chairman	No
Zhang Junchao	China Academy of Aerospace Electronics Technology	Head of Shaanxi Management Division/ deputy head of academy	No
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial Company Limited	Deputy general manager	No
Shi Lirong Note 4	Held positions in 13 subsidiaries including ZTE Kangxun	Chairman/director	No
	Zhongxing WXT	Director	No
	Zhongxing Energy Company Limited	Director	No
	Zhongxing Energy (Tianjin) Company Limited	Director	No
Yin Yimin Note 5	Held positions in 9 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Director	No
	ZTE Capital	Chairman/general manager	Yes
	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I	Executive manager	No
He Shiyou Note 6	Held positions in 5 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited	Chairman/director	No
	Zhongxing WXT	Supervisor	No
Qu Xiaohui Note 7	Xiamen University	Director/professor	Yes
	Yunnan Baiyao Group Co., Ltd.	Independent non-executive director	Yes
	Taikang Life Insurance Co., Ltd.	Independent non-executive director	Yes
	Guangzhou Baiyun Electric Equipment Co., Ltd.	Independent non-executive director	Yes
	Xiamen NetinNet Software Company Limited	Financial advisor	Yes
Wei Wei Note 8	Peking University HSBC Business School	Associate dean	Yes
	Changyuan Group Company Limited	Independent non-executive director	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
Chen Naiwei Note 9	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
Tan Zhenhui	Beijing Jiaotong University	Director of University Academic Committee/ professor	No
	Jiangsu Tongding Optic-electronic Stock Co., Ltd.	Independent non-executive director	Yes
	Metarnet Technologies Co., Ltd.	Independent non-executive director	Yes
Timothy Alexander Steinert	Alibaba Group Holding Limited	Chief legal officer	Yes
Zhang Taifeng	Held positions in 3 subsidiaries including ZTE Kangxun	Chairman	No
Zhou Huidong Note 10	Held positions in 9 subsidiaries including ZTE Group Finance	Supervisor	No

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Wang Yan	Held positions in 3 companies including Zhongxing Xinyu	Director/supervisor/deputy general manager and chief financial officer	Note 11
Xu Weiyan Note 12	ZTE Kangxun	Supervisor	No
Wei Zaisheng	Held positions in 19 subsidiaries including ZTE Kangxun	Chairman/director	No
	Zhongxing WXT	Director	No
	Zhongxing Energy Company Limited	Director	No
	Zhongxing Energy (Tianjin) Company Limited	Director	No
	Shenzhen Capital Group Co., Ltd.	Supervisor	No
Xie Daxiong	Held positions in 7 subsidiaries including Tianjin Zhongxing Software Company Limited	Chairman/director	No
Tian Wenguo	Held positions in 6 subsidiaries including Shenzhen ZTE Supply Chain Co., Ltd	Chairman/director	No
Qiu Weizhao	Held positions in 2 subsidiaries including Shenzhen Zhongxing Microelectronics Technology Company Limited	Director	No
Fan Qingfeng	Held positions in 6 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited	Chairman/director	No
Chen Jie	Held positions in 13 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/secretary to the board/general manager	No
Zhao Xianming	Held positions in 4 subsidiaries including ZTE Integration Telecom Company Limited	Chairman/director/general manager	No
Pang Shengqing	Held positions in 2 subsidiaries including ZTE Japan K.K.	Director	No
Zeng Xuezhong	Held positions in 6 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman/director	No
Xu Huijun	Held positions in 5 subsidiaries including Wuxi Zhongxing Optoelectronics Technologies Company Limited	Chairman/director/general manager	Note 13
Ni Qin	Tianjin Zhongxing Software Company Limited	Director	No
Zhu Jinyun	ZTE (USA), Inc.	Chairman	No
Zhang Renjun	ZTE Japan K.K.	Director	No
Chen Jianzhou	Held positions in 2 subsidiaries including ZTE Kangxun	Supervisor	No
Feng Jianxiong	Held positions in 4 subsidiaries including Shenzhen Zhongxing Telecom Technology & Service Company Limited	Director/supervisor	No

Note 1: Mr. Hou Weigui was appointed chairman of Changsha Zhongxing Software Company Limited in February 2012 and has ceased to be chairman of Sanhe Zhongxing Software Company Limited as from August 2012.

Note 2: Mr. Lei Fanpei resigned as Non-executive Director and Vice Chairman of the Company on 9 February 2012.

Note 3: Mr. Zhang Jianheng was appointed non-executive director and board chairman of China Aerospace International Holding Limited on 26 March 2012 and chairman of China Lucky Group Corporation in November 2012.

Note 4: Mr. Shi Lirong was appointed director of 北京中興網捷科技有限公司 and Changsha Zhongxing Software Company Limited in February 2012.

Note 5: Mr. Yin Yimin has ceased to be director of 北京中興網捷科技有限公司 as from February 2012, director of Sanhe Zhongxing Software Company Limited as from August 2012; and director of Shenzhen ZTE Kangxun Telecom Company Limited and Shenzhen Zhongxing Microelectronics Technology Company Limited as from December 2012.

Note 6: Mr. He Shiyou was appointed chairman of 深圳市中興物聯科技有限公司 and 南京中興物聯科技有限公司 in July 2012 and ceased to be chairman of 深圳市中興物聯科技有限公司 as from December 2012.

Note 7: Ms. Qu Xiaohui was independent non-executive director of Yunnan Baiyao Group Co., Ltd from May 2009 to April 2012 and will continue to undertake such position from April 2012 to April 2015.

Note 8: Mr. Wei Wei was independent non-executive director of Changyuan Group Company Limited from April 2009 to April 2012 and will continue to undertake such position from April 2012 to April 2015.

Note 9: Mr. Chen Naiwei was independent non-executive director of Shanghai Taisheng Wind Power Equipment Co., Ltd from July 2010 to June 2012 and will continue to undertake such position from July 2012 to July 2015.

Note 10: Mr. Zhou Huidong was appointed supervisor of Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited in August 2012 and supervisor of Shenzhen Zhongxing Microelectronics Technology Company Limited and 深圳市中興高達技術有限公司 in December 2012; and has ceased to be supervisor of Shenzhen ZNV Technology Co., Ltd and Shenzhen Changfei Investment Company Limited as from December 2012.

Note 11: Ms. Wang Yan received her remuneration from Shenzhen Zhongxing Micro Finance Co., Ltd.

Note 12: Ms. Xu Weiyan was appointed supervisor of ZTE Kangxun in December 2012.

Note 13: Mr. Xu Huijun received allowances from 2 subsidiaries including Shenzhen ZNV Technology Co., Ltd.

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

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

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

The remuneration for senior management 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.

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

The Board of the Company received a "resignation report" in writing from Non-executive Director Mr. Lei Fanpei on 9 February 2012. Because of the redeployment of his work, Mr. Lei Fanpei wished to resign from the positions of Non-executive Director, Vice Chairman of the Fifth Session of the Board of Directors and member of the Remuneration and Evaluation Committee under the Board of Directors. Mr. Lei Fanpei's resignation became effective upon delivery of his "resignation report" to the Board of Directors. Following his resignation, Mr. Lei Fanpei will not hold any position at the Company. For details, please refer to the "Announcement of Resignation of Non-executive Director" published by the Company dated 9 February 2012.

Directors, Supervisors, Senior Management and Employees

At the fourth meeting of the Nomination Committee of the Fifth Session of the Board of Directors of the Company and the Twenty-fifth Meeting of the Fifth Session of the Board of Directors held on 22 February 2012, the "Resolution on the Nomination of Candidate for Non-independent Director" was considered and passed, whereby the Fifth Session of the Board of Directors nominated Mr. Zhang Jianheng as the candidate for Non-independent Director of the Company. The resolution was considered and approved at the First Extraordinary General Meeting of 2012 of the Company held on 11 April 2012. Mr. Zhang Jianheng's appointment shall be for a term commencing on the date of consideration and approval at the First Extraordinary General Meeting of 2012 and ending upon the conclusion of the term of the Fifth Session of the Board of Directors (namely 29 March 2013). At the Twenty-eighth Meeting of the Fifth Session of the Board of Directors held on 11 April 2012, the "Resolution on the Election of the Vice Chairman of the Fifth Session of the Board of Directors" and the "Resolution on the Election of a New Member as Replacement to the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors" were considered and approved, whereby Mr. Zhang Jianheng was elected Vice Chairman of the Fifth Session of the Board of Directors and a new member as replacement to the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors. For details please refer to the Company's "Announcement of Resolutions of the Twenty-fifth Meeting of the Fifth Session of the Board of Directors" dated 22 February 2012 and the "Announcement of Resolutions of the First Extraordinary General Meeting of 2012" and "Announcement of Resolutions of the Twenty-eighth Meeting of the Fifth Session of the Board of Directors" dated 11 April 2012.

At the fifth meeting of the Nomination Committee of the Fifth Session of the Board of Directors held on 27 March 2012 and the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012, the "Resolution on the Appointment of Senior Management Personnel" was considered and passed, whereby it was approved that Mr. Wang Jiaran, general manager of Sales Division II, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013), and that Mr. Chen Jianzhou, Structure and Process Officer of the Company, be appointed as Senior Vice President for a term commencing on the date on which the resolution was considered and passed at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors and ending upon the conclusion of the Fifth Session of the Board of Directors (namely 29 March 2013). For details, please refer to the "Announcement of Resolutions of the Twenty-seventh Meeting of the Fifth Session of the Board of Directors" published by the Company dated 28 March 2012.

Please refer to sections (III) and (IV) 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.

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

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

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

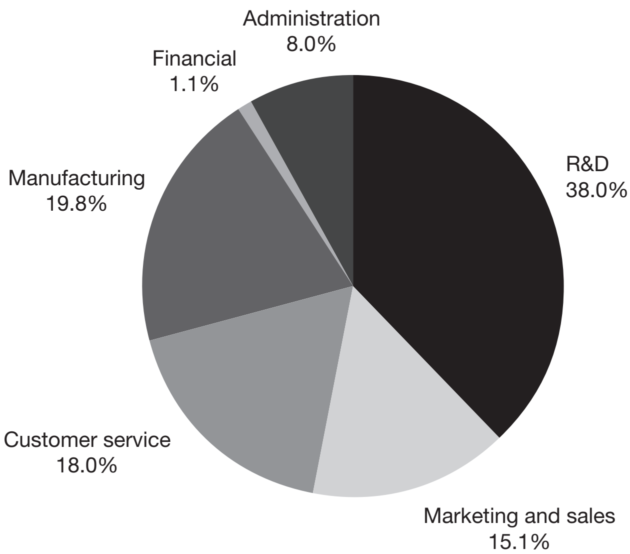
At the First Extraordinary General Meeting of 2013 of the Company held on 7 March 2013, Mr. Chang Qing and Ms. Xu Weiyan were elected Shareholders' Representative Supervisors of the Sixth Session of the Supervisory Committee of the Company. On 28 February 2013, Mr. Xie Daxiong, Ms. He Xuemei, Mr. Zhou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

(VIII) INFORMATION OF GROUP EMPLOYEES

As at the end of the year, the Group had 78,402 employees (Including 65,437 as employees of the parent company), with an average age of 32. There were 85 retired employees, including 33 retired employees in respect of which expenses were payable by the Company.

1. Classification by specialisation as follows:

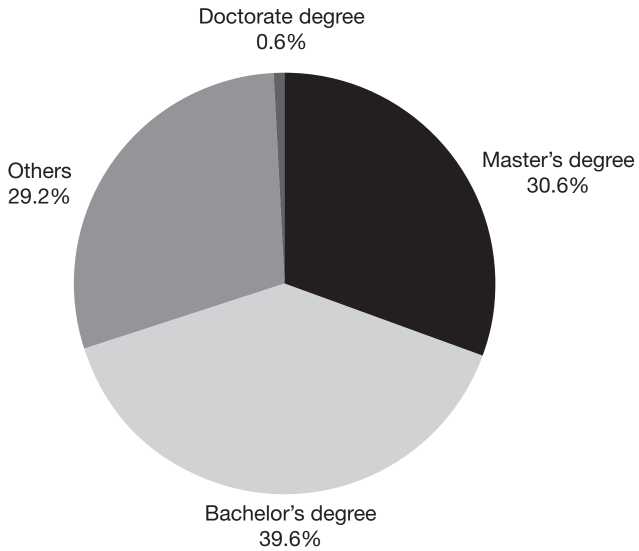
Specialisation	Headcount	As an approximate percentage of total headcount
R&D	29,764	38.0%
Marketing and sales	11,867	15.1%
Customer service	14,104	18.0%
Manufacturing	15,553	19.8%
Financial	820	1.1%
Administration	6,294	8.0%
Total	**78,402**	**100.0%**



Directors, Supervisors, Senior Management and Employees

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	489	0.6%
Master's degree	23,953	30.6%
Bachelor's degree	31,072	39.6%
Others	22,888	29.2%
Total	**78,402**	**100.0%**



3. Remuneration Package for Employees and training programme

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

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

Corporate Governance Structure

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

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

I. Status of Corporate Governance

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

During the reporting period, the Company made adjustments to its cash dividend distribution policy and formulate deliberation reports on planning for shareholders’ return and amended provisions of the Articles of Association relating to cash dividend distribution in accordance with the “Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies” (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the CSRC and the “Notice on the Diligent Implementation of Pertinent Requirements of the Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies” (《關於認真貫徹落實<關於進一步落實上市公司現金分紅關事項的通知>有關要求的通知》) issued by the Shenzhen CSRC and taking into account its actual conditions. The Company has updated its System of Registration of Owners of Inside Information in compliance with the requirements of “Regulations on the Establishment of the System of Registration and Administration of Owners of Inside Information by Listed Companies” (《關於上市公司建立內幕信息知情人登記管理制度的規定》) issued by CSRC to further regulate the administration of inside information. In accordance with the “Notice on the Publication of Supplementary Guidelines for Corporate Internal Control” (《關於印發企業內部控制配套指引通知》) jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the “Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen” (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and the “Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies” (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by the Shenzhen CSRC, the “Report on the 2012 Internal Control Work Plan” has been formulated and reviewed at the twentieth meeting of the Audit Committee of the Fifth Session of the Board of Directors and the Twenty-ninth Meeting of the Fifth Session of the Board of Directors.

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

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

Corporate Governance Structure

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

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

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

(V) **Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management's Remuneration and Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors has formulated the Phase I Share Incentive Scheme of the Company, which has been completed at December 2012 upon approval by the general meeting of the Company.

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

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

(VIII) Rules and regulations established

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

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

Corporate Governance Structure

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

1. Implementation of specific corporate governance activities

In accordance with the "Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" 《關於進一步落實上市公司現金分紅有關事項的通知》 issued by the CSRC and the "Notice on the Diligent Implementation of Pertinent Requirements of the Notice on Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" (《關於認真貫徹落實<關於進一步落實上市公司現金分紅有關事項的通知>有關要求的通知》) issued by the Shenzhen CSRC, "listed companies should further enhance their awareness of the importance of rewarding shareholders and make autonomous decisions regarding the company's profit distribution, formulate clear planning for distribution, offer full protection of the lawful rights of the company's shareholders to receive return on assets gains and continuously improve the decision making procedure and mechanism for profit distribution at the board of directors and general meeting in strict accordance with the provisions of the Company Law and the Articles of Association." The Company adjusted its cash dividend distribution policy after taking into consideration its actual conditions, conducted specific research and deliberation on the planning of shareholders' return and formulated a deliberation report. In the course of deliberating on the planning of shareholders' return, the Company noted the views and demands of minority shareholders through a variety of means including telephone hotlines, facsimile, emails and the investors' interactive platform, etc.

The Company had submitted the amendments to the Articles of Association relating to the cash dividend distribution policy to the Board of Directors and noted the views of the Independent Non-executive Directors and the Board of Directors, before tabling the same at the general meeting for consideration. Shareholders of the Company voted upon the amendments to the Articles of Association relating to the cash dividend distribution policy and the adjustment of the Company's cash dividend distribution policy was approved at the general meeting with sufficient consideration of the views of minority shareholders and protection of their lawful rights. For details please refer to the section headed "Report of the Board of Directors (II) 16. Profit distribution or share capital increase by way of transfer from capital reserves."

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

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

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

III. Information on general meetings convened

At the First Extraordinary General Meeting of 2012 of the Company convened on-site on 11 April 2012, the "Resolution in respect of the election of Non-independent Director," "Resolution on the Company's fulfillment of conditions for bond issue," "Resolution on the proposed issue of bonds" and "Resolution on submitting to the general meeting of the Company a mandate for the Board of Directors to deal with matters pertaining to the bond issue with full discretion" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2012 of ZTE Corporation" published by the Company on 12 April 2012 at http://www.cninfo.com.cn, China Securities Journal, Securities Times and Shanghai Securities News.

At the 2011 Annual General Meeting of the Company convened on-site on 25 May 2012, the "Financial statements for the year ended 31 December 2011 audited by the PRC and Hong Kong auditors," "Report of the Board of Directors of the Company for the year ended 31 December 2011," "Report of the Supervisory Committee of the Company for the year ended 31 December 2011," "Report of the President of the Company for the year ended 31 December 2011," "Final financial accounts of the Company for the year ended 31 December 2011," "Profit distribution proposal of the Company for the year ended 31 December 2011," "Resolutions on the proposed applications by the Company for composite credit facilities," "Resolutions on the appointment of the PRC auditors and the Hong Kong auditors of the Company for the year ended 31 December 2012," "Resolution on the application for investment limits in derivative products of the Company in 2012," "Resolution of the Company on the waiver of rights," "Resolution on the General Mandate for 2012," "Resolution on the amendment of certain clauses of the Articles of Association" and "Resolution on the amendment of certain clauses of the Rules of Procedure of the Board of Directors Meetings" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the 2011 Annual General Meeting of ZTE Corporation" published by the Company on 26 May 2012 at http://www.cninfo.com.cn, China Securities Journal, Securities Times and Shanghai Securities News.

IV. Performance of the Independent Non-executive Directors

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

Corporate Governance Structure

Attendance of Independent Non-executive Directors of the Company at Board of Directors meetings and general meetings in 2012 was as follows:

Independent Non-executive Directors	Number of Board meetings required to attend	Number of personal attendance (including video conference)	Number of attendance via communications	Attendance by proxy	Absence	Failure to personally attend at two consecutive meetings	Attendance at general meetings
Qu Xiaohui	14	9	3	2	0	Yes[Note]	2
Wei Wei	14	10	3	1	0	No	1
Chen Naiwei	14	9	3	2	0	No	1
Tan Zhenhui	14	7	3	4	0	No	2
Timothy Alexander Steinert	14	11	3	0	0	No	1

Note: Due to work reasons, Independent Non-executive Director Ms. Qu Xiaohui was not able to attend the Twenty-fifth and Twenty-sixth Meetings of the Fifth Session of the Board of Directors and appointed in writing Independent Non-executive Director Mr. Wei Wei to vote on her behalf.

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2012 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 28 March 2013.

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

1. Performance of principal duties by the Audit Committee

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

(1) Issue of three review opinions on the 2012 financial report of the Company

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

The Audit Committee first examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2011; key financial indicators calculated on the basis of data from the 2012 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2011. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Next, following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2012 annual report was in compliance with the new accounting standards for business enterprises and their practice notes.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2012. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2012 and approved the submission of the report for consideration by the Board of Directors.

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

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year in early January 2013 and submitted such timetable to Shenzhen CSRC in early January 2013 in accordance with relevant requirements on annual report auditing announced by Shenzhen CSRC. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants' firms, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants' firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns of the accountants. Such concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants' firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

(3) Summary Report on the 2012 audit work performed by the accountants' firms

The PRC and Hong Kong auditors of the Company performed auditing on the Company's annual report during the period from October 2012 to March 2013. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the annual audit plan, and issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for consideration. The PRC and Hong Kong auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence after nearly 6 months of auditing work. The audit reports by PRC and Hong Kong auditors with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and prudence in the course of audit and completed the audit of the Company's 2012 financial report and internal control audit in a satisfactory manner.

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

Based on cooperation with Ernst & Young Hua Ming LLP and Ernst & Young over the years, the Audit Committee was of the view that the PRC and Hong Kong auditors of the Company are major accountants' firms with high-calibre professional teams, full qualifications for the practice, rich practical experience and stringent internal management. As such, the Audit Committee recommends the Board of Directors to re-appoint Ernst & Young Hua Ming LLP as PRC auditors and Ernst & Young as Hong Kong auditors of the Company for the financial reports of 2013, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2013.

Corporate Governance Structure

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

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

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

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

The Remuneration and Evaluation Committee has conducted detailed examination of disclosed remuneration of Directors, Supervisors and senior management of the Company, and is of the view that the procedure for determining the remuneration of Directors, Supervisors and senior management of the Company is in compliance with relevant provisions, and that the remuneration of Directors, Supervisors and senior management of the Company disclosed in the 2012 annual report of the Company is true and accurate.

3. Performance of principal duties by the Nomination Committee

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

VI. Performance of duties by the Supervisory Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

I. Shareholders' Rights and Investors' Relations

(I) Shareholders' rights

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

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

Corporate Governance Structure

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

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details please refer to Articles 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company shall be required to give explanations in response to queries and suggestions of shareholders. In 2012, the Company convened 2 general meetings. For details please refer to the section headed "III Information on general meetings convened" in Part I of this chapter.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor reception. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and the senior management will attend the meeting on a best effort basis and engage in direct dialogue with the shareholders who will be given time to raise questions. Details of the Company's reception of investors during 2012 are set out in the section of this report headed "Report of Board of Directors (II) 18. Reception of Analysts, Communications and Press Interviews of the Company During the Year".

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

In accordance with the latest requirements of the amended Hong Kong Listing Rules (effective 1 April 2012) and requirements of the Company Law and other pertinent laws, regulations and regulatory documents and taking into account the actual conditions of the Company, the Company amended its Articles of Association. Such amendments, including mainly the addition of the duty to review and monitor the Company's corporate governance, were considered and approved at the 2011 Annual General Meeting held on 25 May 2012. For details, please refer to the "Announcement on Resolutions of the 2011 Annual General Meeting" published by the Company on the same date.

II. Board of Directors

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

(I) Functions of the Board

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

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2012. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board

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

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

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

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

Each Director (including Non-executive Director) is appointed for a term of 3 years, which may be extended upon expiry. The term of office of each Independent Non-executive Director must not be longer than 6 years. The term of office of Mr. Zhang Jianheng as Non-executive Director of the Fifth Session of the Board of Directors commenced on 11 April 2012 and shall end on 29 March 2013. The term of office of Mr. Timothy Alexander Steinert as Independent Non-executive Director of the Fifth Session of the Board of Directors commenced on 30 June 2010 and shall end on 29 March 2013. Other than the above, the term of office of all Directors of the Fifth Session of the Company commenced on 30 March 2010 and shall end on 29 March 2013.

Corporate Governance Structure

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

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2012, the Board of Directors of the Company convened 14 meetings. In 2012, the Company convened 2 general meetings. Attendance of Directors at the meetings of the Board of Directors and the general meetings in 2012 was set out in the following table:

No. of meetings	Board meetings 14			General meetings 2	
Directors	Attendance in person	Attendance by proxy	Attendance Note	Attendance in person	Attendance Note
Chairman and Non-executive Director					
Hou Weigui	14	0	14/14	2	2/2
Vice Chairman and Non-executive Director					
Lei Fanpei (resigned with effect from 9 February 2012)	0	0	0/0	0	0/0
Zhang Jianheng (appointed with effect from 11 April 2012)	6	5	6/11	1	1/1
Xie Weiliang	12	2	12/14	2	2/2
Non-executive Director					
Wang Zhanchen	10	4	10/14	1	1/2
Zhang Junchao	9	5	9/14	0	0/2
Dong Lianbo	11	3	11/14	2	2/2
Executive Director					
Shi Lirong	12	2	12/14	1	1/2
Yin Yimin	13	1	13/14	0	0/2
He Shiyou	12	2	12/14	0	0/2
Independent Non-executive Director					
Qu Xiaohui	12	2	12/14	2	2/2
Wei Wei	13	1	13/14	1	1/2
Chen Naiwei	12	2	12/14	1	1/2
Tan Zhenhui	10	4	10/14	2	2/2
Timothy Alexander Steinert	14	0	14/14	1	1/2

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

2. As stipulated by the Articles of Association, all Directors should be given 14 days' notice prior to the commencement of a regular Board of Directors meeting and 3 days' notice prior to the commencement of an interim Board of Directors meeting. The secretary to the Board of Directors should provide details of a

regular Board of Directors meeting (including information in relation to each of the meetings of specialist committees of the Board of Directors) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

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

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

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

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

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

(VI) Chairman and the Chief Executive Officer

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

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

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

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

Corporate Governance Structure

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

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

2. According to records maintained by the Company, trainings received by the Directors of the Company in 2012 are as follows, focusing on the roles, functions and duties of directors of listed companies:

Contents	Laws, regulations and rules, etc	
Members of the Board	Reading materials	Attendance at talks or seminars, etc
Chairman and Non-executive Director		
Hou Weigui	√	√
Vice Chairman and Non-executive Director		
Zhang Jianheng	√	√
Xie Weiliang	√	√
Non-executive Director		
Wang Zhanchen	√	√
Zhang Junchao	√	—
Dong Lianbo	√	√
Executive Director		
Shi Lirong	√	—
Yin Yimin	√	—
He Shiyou	√	—
Independent Non-executive Director		
Qu Xiaohui	√	√
Wei Wei	√	√
Chen Naiwei	√	√
Tan Zhenhui	√	√
Timothy Alexander Steinert	√	√

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

4. In respect of potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management and with the mandate of the general meeting, at the Thirty-second Meeting of the Fifth Session of the Board of Directors held on 22 August 2012, the "Resolution on Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the Company's contract with Chartis Insurance Company China Limited, Shenzhen Branch was extended for one year with a compensation limit of RMB100 million per annum.

III. Specialist Committees under the Board

There are 3 specialist committees under the Board of Directors, namely the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. On 30 March 2010, the Fifth Session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected at the First Meeting of the Fifth Session of the Board of Directors. On 30 June 2010, the resolution on the election of a new member as replacement to the Nomination Committee and the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors was considered and approved at the Fifth Meeting of the Fifth Session of the Board of Directors, whereby Mr. Timothy Alexander Steinert, Independent Non-executive Director, was elected a new member as replacement to the Nomination Committee and the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors. At the Twenty-eighth meeting of the Fifth Session of the Board of Directors of the Company held on 11 April 2012, the resolution on the election of a new member as replacement to the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors was considered and approved, whereby Mr. Zhang Jianheng, Non-executive Director, was elected a new member as replacement to the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors. Specific working rules have been formulated for each of the specialist committees, stipulating, among other things, the duties and powers of these committees. The working rules of each of the specialist committees have been posted on the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialist committees is conducted in accordance with the provisions of the Working Rules for the Audit Committee, Working Rules for the Remuneration and Evaluation Committee and Working Rules for the Nomination Committee, and is implemented by reference to the statutory procedures for meetings of the Board of Directors.

(I) The Remuneration and Evaluation Committee

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

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

Corporate Governance Structure

2. Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Non-executive Directors and 2 Non-executive Directors. As at the end of the reporting period, the convenor of the Remuneration and Evaluation Committee of the Fifth Session of the Board of Directors is Mr. Wei Wei, Independent Non-executive Director. Members of the committee include Mr. Hou Weigui, Mr. Zhang Jianheng, Ms. Qu Xiaohui, Mr. Tan Zhenhui and Mr. Timothy Alexander Steinert. The Remuneration and Evaluation Committee held 5 meetings in 2012. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Wei Wei	5/5	0/5
Hou Weigui	4/5	1/5
Lei Fanpei (resigned with effect from 9 February 2012)	0/0	0/0
Zhang Jianheng (appointed with effect from 11 April 2012)	3/3	0/3
Qu Xiaohui	5/5	0/5
Tan Zhenhui	5/5	0/5
Timothy Alexander Steinert	5/5	0/5

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

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

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

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

The Remuneration and Evaluation Committee held 5 meetings in 2012 to:

a) review the preliminary drafts of the Company's evaluation and incentive plans for the President, Executive Vice Presidents and Senior Vice Presidents of 2012;

b) consider the resolution on the performance of and annual bonus amount for the President of the Company for 2011, and submit the same to the Board of Directors for consideration and approval;

c) consider the resolution on the performance of and annual bonus amount for other senior management personnel of the Company for 2011, and submit the same to the Board of Directors for consideration and approval;

d) consider the resolution on the principles for determining the 2011 annual bonus amount for the Chairman of the Board of Directors and the Chairman of the Supervisory Committee;

e) consider the report on the Company's implementation of remuneration matters in 2011;

f) consider the report on the Company's remuneration budget in 2012;

g) consider the resolution on Performance Management Measures for the President of the Company for 2012, and submit the same to the Board of Directors for consideration and approval;

h) consider the resolution on Performance Management Measures for other senior management personnel of the Company for 2012, and submit the same to the Board of Directors for consideration and approval;

i) consider the resolution on the amendment of certain clauses of the Working Rules of the Remuneration and Evaluation Committee, and submit the same to the Board of Directors for consideration and approval;

j) consider the resolution on the proposed application for retrospective increase of the performance bonus for 2011;

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

l) review the resolution on the third unlocking of the Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company and submit the same for review and approval by the Board of Directors of the Company; and

m) perform work relating to the third unlocking of the Subject Shares under the Second Award of the Phase I Share Incentive Scheme of the Company.

(II) The Nomination Committee

1. The role and functions of the Nomination Committee

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

2. Members and Meetings of the Nomination Committee

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

Corporate Governance Structure

The Nomination Committee held 2 meetings in 2012. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Tan Zhenhui	1/2	1/2
Hou Weigui	2/2	0/2
Xie Weiliang	2/2	0/2
Wang Zhanchen	1/2	1/2
Wei Wei	2/2	0/2
Chen Naiwei	2/2	0/2
Timothy Alexander Steinert	2/2	0/2

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

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

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

4. Work of the Nomination Committee during the year

In 2012, the Nomination Committee held 2 meetings mainly to:

a) consider the resolution on the nomination of candidates for Non-independent Directors and nominate Mr. Zhang Jianheng as candidate for Non-independent Director of the Company, and submit the same to the Board of Directors and General Meeting for consideration and approval;

b) consider the resolution on the appointment of senior management personnel and approve the appointment of Mr. Wang Jiaran and Mr. Chen Jianzhou as Senior Vice Presidents of the Company, and submit the same to the Board of Directors for consideration and approval; and

c) consider the resolution on the amendment of certain clauses of the Working Rules of the Nomination Committee, and submit the same to the Board of Directors for consideration and approval.

(III) The Audit Committee

1. The role and functions of the Audit Committee

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

2. Members and Meetings of the Audit Committee

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

The Audit Committee held 9 meetings in 2012. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Qu Xiaohui	9/9	0/9
Hou Weigui	7/9	2/9
Zhang Junchao	3/9	6/9
Dong Lianbo	5/9	4/9
Wei Wei	9/9	0/9
Chen Naiwei	7/9	2/9
Tan Zhenhui	7/9	2/9

Corporate Governance Structure

3. *Work of the Audit Committee during the year*

In 2012, the Audit Committee held 9 meetings mainly to:

a) consider the financial report of the Company for the year ended 31 December 2011, and submit the same to the Board of Directors for consideration and approval;

b) receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2011;

c) consider the report of the Company on the implementation of internal control work plan for 2011;

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

e) receive the report of Ernst & Young on the financial audit of the Company in 2011;

f) receive the report of Ernst & Young on the internal control audit of the Company in 2011;

g) receive the explanatory statement of Ernst & Young on the 2011 continuing connected transactions of the Company;

h) consider the summary report on the audit of the Company performed by the PRC and Hong Kong auditors in 2011;

i) consider the audit fees payable to the PRC and Hong Kong auditors for the year ended 31 December 2011 and submit the same to the Board of Directors for consideration and approval;

j) consider resolutions on the appointment of the PRC and Hong Kong auditors of the Company for 2012 and submit the same to the Board of Directors and general meeting for consideration and approval;

k) consider the resolution on the write-off of bad debts of the Company for the second half of 2011 and submit the same to the Board of Directors for consideration and approval;

l) consider the resolution of the Company on the impairment provision for individual assets for 2011, and submit the same to the Board of Directors for consideration and approval;

m) consider the report of the Company on derivative investments in 2011;

n) consider the resolution on the application for investment limits in derivative products of the Company for 2012 and submit the same to the Board of Directors and the general meeting for consideration and approval;

o) consider the self-assessment report on internal control of the Company for the year ended 31 December 2011;

p) consider the internal audit and internal control testing reports of the Company for the year ended 31 December 2011;

q) consider the resolution on the amendment of the Working Rules of the Audit Committee, and submit the same to the Board of Directors of the Company for consideration and approval;

r) consider the report on the preparation of the Company's First Quarterly Report of 2012 and submit the same to the Board of Directors of the Company for consideration and approval;

s) consider the report of the Company on derivative investments in the first quarter of 2012;

t) consider the report of the Company on the internal control work plan of 2012;

u) consider the resolution of the Company on the disposal of equity interests in Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and connected transaction, and submit the same to the Board of Directors of the Company for consideration and approval;

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

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

x) consider the resolution of the Company on the continuing connected transaction relating to the purchase of software outsourcing services from Huatong, and submit the same to the Board of Directors of the Company for consideration and approval;

y) consider the resolution of the Company on the continuing connected transaction relating to the purchase of software outsourcing services from Nanchang Software, and submit the same to the Board of Directors of the Company for consideration and approval;

z) consider the resolution of the Company on the continuing connected transaction relating to the provision of financial services, and submit the same to the Board of Directors of the Company for consideration and approval;

aa) consider the interim financial report of the Company for the six months ended 30 June 2012 and submit the same to the Board of Directors for consideration and approval;

bb) receive the summary report of Ernst & Young on its advisory work for the preparation of the Company's interim financial report for the first half of 2012;

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

dd) consider the internal control work report for the six months ended 30 June 2012;

ee) consider the report on internal audit and internal control testing for the six months ended 30 June 2012;

ff) review the report of the Company on derivative investments in the first six months of 2012;

gg) consider the report on the preparation of the Company's Third Quarterly Report of 2012 and submit the same to the Board of Directors for consideration and approval;

hh) review the report of the Company on derivative investments in the first three quarters of 2012;

Corporate Governance Structure

ii) review the report of the Company on the implementation of internal control plan for the third quarter of 2012;

jj) consider the resolution on the subscription to shares and convertible bonds of China All Access (Holdings) Limited by ZTE (H.K.) Limited, and submit the same to the Board of Directors of the Company for consideration and approval;

kk) consider the resolution of the Company on the continuing connected transaction relating to the purchase of raw materials from Zhongxingxin, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

ll) consider the resolution of the Company on the continuing connected transaction relating to the purchase of raw materials from Mobi Antenna, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

mm) consider the resolution of the Company on the continuing connected transaction relating to the purchase of software outsourcing services from Huatong, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

nn) consider the resolution of the Company on the continuing connected transaction relating to the purchase of software outsourcing services from Nanchang Software, and submit the same to the Board of Directors of the Company for consideration and approval; and

oo) consider the resolution of the Company on the connected transaction relating to the lease of property and submit the same to the Board of Directors for consideration and approval.

(IV) Corporate governance functions

The Company has amended its Working Rules for the Audit Committee, Working Rules for the Nomination Committee and Working Rules for the Remuneration and Evaluation Committee, and amended the Articles of Association and Rules of Procedure of the Board of Directors Meetings in establishing the duties of its Board of Directors to perform corporate governance functions, in accordance with the amended Hong Kong Listing Rules (effective 1 April 2012). The aforesaid amendments were considered and approved at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors held on 28 March 2012. The amendments of the Articles of Association and Rules of Procedure of the Board of Directors Meetings were subsequently considered and approved at the 2011 Annual General Meeting held on 25 May 2012.

The Board of Directors was responsible for the following corporate governance functions:

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

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

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

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

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

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

(I) Remuneration

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

Further details of the remuneration of Directors and Supervisors for 2012 are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1 Service contracts and contractual interests of the Directors and Supervisors

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

2. Interests of Directors and Supervisors in contracts

None of the Directors and Supervisors of the Company was materially interested, either directly or indirectly, in any contracts of significance to which the Group is a party subsisting during or at the end of 2012.

Corporate Governance Structure

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2012 are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees — (II) Changes in the shareholdings of the Company's Directors, Supervisors and senior management and annual remuneration."

Save as disclosed above, as at 31 December 2012, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules.

As at 31 December 2012, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

4. Securities transactions by Directors and Supervisors

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

V. Remuneration Package and Retirement Benefits for Employees

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

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

VI. Auditors' Remuneration

For details of the remuneration of the auditors of the Company, please refer to the section of this report headed "Material Matters — (XVI) Appointment of Auditors".

VII. Company Secretary

The Company Secretary (Mr. Feng Jianxiong) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees — (I) Biographical Details of Directors, Supervisors and Senior Management". In 2012, the Company Secretary received more than 15 hours of training to upgrade his professional skills and expertise.

VIII. Accountability and Audit

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

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

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2012 is set out in the report of the Independent auditors in page 312 to 313 of this report.

IX. Internal Control

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

The Company continued to improve its internal control system in 2012. In accordance with 18 application guidelines in the "Supplementary Guidelines for Corporate Internal Control", the internal control development project team streamlined the business processes again on the basis of internal control work completed in 2011, prepared a risk checklist, conducted walk-through tests on key controls and updated the risk control matrix during the year. It also set up specialised groups to conduct research and investigation on key management issues of the Company and made recommendations on management optimisation in respect of risks existing in our operation. All in all, the Company has established and effectively implemented an internal control regime that meets its operational needs and covers all segments of the Company's operation. The Company will continue to adjust and improve the development of its internal control regime in a timely manner in response to changes in internal and external conditions.

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

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation as at 31 December 2012.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. A self-assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2012, please refer to the section of this report headed "Internal Control".

Internal Control

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

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

1. Overview of internal control development and improvement

The Company's internal control establishment has basically covered all operating segments of the Company, including but not limited to: organizational structure, development strategy, social responsibility, corporate culture, human resources, asset management, treasury activities, sales operation, procurement activities, construction projects, outsourcing, financial reporting, guarantees, research and development, contract management, total budgeting, internal information dissemination and information system, etc. The Company has, taking into account its specific conditions, developed a comprehensive internal control system comprising the Rules of Procedure of the General Meetings, Rules of Procedure of the Board of Directors Meetings, Rules of Procedure of the Supervisory Committee, Independent Director System, Administrative Rules of the Company on Information Disclosure, Internal Control System of the Company, Administrative Rules of the Company on Issue Proceeds, System of Registration of Owners of Inside Information, System for the Administration of External Information Users, System of Accountability for Significant Errors in Information Disclosure of Annual Reports, System of Derivative Investment Risk Control and Information Disclosure, Administrative Measures on Third-party Guarantees, Administrative Measures on Connected Transactions and Administrative Measures on Equity Investment in Operating Subsidiaries, etc.

2. Establishment of internal control departments

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board, the Audit Committee, the Risk Management Committee, the Internal Control Development Project Team and the Audit Department. The Board is responsible for the establishment, improvement, effective implementation and inspection and supervision of the internal control system and conducts full-scale inspection and effectiveness assessment on the Company's internal control on a regular basis. The Audit Committee audits the internal control system of the Company and its implementation and supervises and inspects the internal audit system of the Company and its implementation. The Risk Management Committee is focused on streamlining and regulating internal control activities, as well as information and communication relating to internal control activities. The Internal Control Development Project Team is mainly responsible for promoting internal control development at all businesses, departments, subsidiaries (including branch organizations) and job positions of the Company and reporting the Company's work in internal control development to the Audit Committee of the Company. The Audit Department is mainly responsible for conducting internal control audit of various systems of the Company (including subsidiaries and other branches), carrying out internal control audit and control tests on a regular basis, reporting internal control audit work to the Audit Committee, Supervisory Committee and management of the Company and exercising supervisory functions.

3. Internal control plan and implementation

(1) Internal control work plan of 2012

In accordance with requirements of the "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) (Shen Zheng Ju Fa [2012] No. 105) issued by Shenzhen CSRC and taking into account the current conditions of the Company's operations and management, the Company formulated the "Report on the 2012 Internal Control Work Plan" in April 2012, which was reviewed by the Twentieth Meeting of the Audit Committee of the Fifth Session of the Board of Directors and the Twenty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 25 April 2012. The internal control work of the Company in 2012 was implemented in three stages, namely internal control development, self-assessment of internal control and internal control audit. At the stage of internal control development, the major work included the updating of business level management systems and internal control documents and the identification of internal control deficiencies and rectification. The Audit Department of the Company was responsible for completing the self-assessment of internal control, while the internal control development project team completed the self-assessment report on internal control based on the status of internal control development and the results of the self-assessment conducted by the Audit Department, with a special focus on the building and improvement of the internal control system, implementation of internal control development and assessment of key control activities and business flows of the Company, in accordance with the Rules for Corporate Internal Control and Supplementary Guidelines for Corporate Internal Control. The stage of internal control audit was primarily concerned with the engagement of independent auditors to conduct audit of the Company's internal controls, and the provision of necessary cooperation and support to their audit work.

(2) Implementation of internal control development in 2012

During the first quarter of 2012, the internal control development project team of the Company reviewed the implementation of the Company's internal control regulation in 2011, completed the "Report on implementation of the internal control plan in 2011" and the "2011 Report on Self Assessment of Internal Control", worked actively with the independent audit firm to conduct internal audit and rectified any deficiencies on an ongoing basis. For details of the internal control development in the first quarter, please refer to the section headed "Material Matters" in the 2012 first quarterly report of the Company.

During the second quarter of 2012, the internal control development project team of the Company formulated the "Concluding Report on the Implementation of Internal Control Regulation in 2011" and "2012 Internal Control Work Plan," etc. while continuously tracking routine meetings of the Company's risk management committee on exchange risks and risks associated with the Euro debt crisis. The internal control development project team conducted research and investigation on the exchange risks and financial process flows of the Company, proposed a control mechanism for exchange risk management, and optimise and update the financial process flows. For details of the internal control development in the second quarter, please refer to the section headed "Material Matters" in the 2012 interim report of the Company.

During the third quarter of 2012, the internal control development project team convened a working meeting, officers at the business units in charge of the streamlining of sub-processes were confirmed and the draft for internal control work in accordance with 18 application guidelines in the "Supplementary Guidelines for Corporate Internal Control" was compiled based on feedback from officers in charge. For details of the internal control development in the third quarter, please refer to the section headed "Material Matters" in the 2012 third quarterly report of the Company.

Internal Control

Progress of internal control work in the fourth quarter of 2012:

a) *Streamlining of business processes and updating of internal control documents*

The internal control development project team streamlined the risk types and updated the risk checklist based the Company's latest organisational structure, business processes and position duties. On the basis of internal control work completed in 2011, business processes were streamlined again, inspections were carried out to ensure the completeness of corporate institution documents relating to the sub-processes and the effectiveness of corresponding controls to specific risks, process descriptions for various guidelines were completed, walk-through tests were conducted in respect of key controls and risks, reviews were conducted to ensure completely accurate understanding of business flows, proper execution of all control measures, and the risk control matrix was also updated on this basis.

b) *Working with the independent auditors to facilitate the internal control audit and procuring rectification of internal control deficiencies*

The internal control development project team was responsible for fully cooperating with the independent auditors in the latter's internal control audit work. In response to internal control deficiencies identified by the independent auditors in their internal control audit, the internal control development project team has drafted an "Internal Control Deficiency Rectification Task Statement" to specify departments and officers responsible for leading the rectification and schedules for completion of rectification, The internal control development project team shall track the progress of rectification on a continued basis.

(II) OPINION ON INTERNAL CONTROL ASSESSMENT

1. The Company's 2012 internal control self-assessment report

The Company has conducted a self-assessment on the effectiveness of the design and operation of its internal control for the year ended 31 December 2012 in accordance with the Basic Rules for Corporate Internal Control, Guidelines for Corporate Internal Control Assessment and the requirements of other pertinent laws and regulations.

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

In future period, the Company will continue to adjust and improve the building of its internal control regime, regulate the implementation of its internal control system and strengthen supervision and inspection of its internal controls, in order to facilitate sound and sustainable development of the Company.

For details of the Company's internal control, please refer to the "2012 Report of Self-assessment on Internal Control of ZTE Corporation" published by the Company on 28 March 2013 on http://www.cninfo.com.cn.

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

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

Therefore, the Board of Directors is of the view that the Company has not identified any significant defects in the design or implementation of internal control in 2012. The Company's self-assessment on its internal control is in line with the actual conditions.

3. Opinion of the Supervisors of the Company on the Self-Assessment of Internal Control

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

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

(3) During the reporting period, the management and decision-making processes of the Company were in strict compliance with various rules and regulations and no violations of the Guidelines for Internal Control of Listed Companies published by the Shenzhen Stock Exchange or the Company's internal control system had been reported.

In view of the above and having reviewed the Company's internal control self-assessment report, the Supervisory Committee is of the view that the self-assessment of the Company's internal control is a true, objective and complete reflection of the status of the Company's internal control, and has no objection to the assessment report on internal control of the Company.

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

(1) The Company has established a comprehensive internal control regime in compliance with relevant laws, administrative regulations and departmental rules and regulations of the State. In 2012, the Company was in compliance with basic principles in internal control and further improved and developed its internal control and management system and continued to advance its internal control development in an orderly manner taking into account its specific conditions, business development and management requirements.

Internal Control

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

(3) The self-assessment of the Company's internal control duly reflects the status of the Company's internal control.

5. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the China Code of Ethics for Certified Public Accountants, Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2012 and furnished an opinion as follows:

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

For the internal control audit report of the Company, please refer to the "Internal Control Audit Report of ZTE Corporation" published by the Company on 28 March 2013 on http://www.cninfo.com.cn.

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

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

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

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

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

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

Report of the PRC Auditors

Ernst & Young Hua Ming (2013) Shen Zi No. 60438556_H01

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

To the Shareholders of ZTE Corporation:

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2012 and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

II. RESPONSIBILITY OF THE CERTIFIED PUBLIC ACCOUNTANT

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

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

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

Report of the PRC Auditors (continued)

III. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the consolidated and company financial position as at 31 December 2012 and the consolidated and company results of operations and cash flows of ZTE Corporation for the year ended 31 December 2012.

Ernst & Young Hua Ming LLP	Chinese Certified Public Accountant: **Li Yuxing (黎宇行)**
Beijing, the People's Republic of China	Chinese Certified Public Accountant: **Fu Jie (傅捷)**
	27 March 2013

Consolidated Balance Sheet

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

Assets	Note V	2012	2011
Current assets			
Cash	1	**24,126,423**	21,471,967
Trading financial assets	2	**106,297**	95,618
Bills receivable	3	**4,282,220**	3,223,529
Trade receivables	4	**22,068,176**	23,873,425
Factored trade receivables	4	**4,165,514**	3,623,096
Other receivables	5	**2,019,341**	2,118,700
Prepayments	6	**742,551**	494,200
Inventories	7	**11,442,389**	14,988,379
Amount due from customers for contract works	8	**13,666,100**	14,588,455
Total current assets		**82,619,011**	84,477,369
Non-current assets			
Available-for-sale financial assets	9	**1,092,335**	819,972
Long-term trade receivables	10	**1,206,642**	864,274
Factored long-term trade receivables	10	**4,018,484**	4,156,083
Long-term equity investments	12	**455,768**	514,091
Investment properties	13	**1,686,158**	—
Fixed assets	14	**7,096,624**	7,003,824
Construction in progress	15	**824,387**	1,580,462
Intangible assets	16	**1,087,038**	1,194,946
Deferred development costs	16	**2,446,934**	1,925,610
Deferred tax assets	17	**1,218,605**	1,128,836
Long-term deferred assets		**90,017**	61,741
Other non-current assets	19	**3,604,303**	1,640,906
Total non-current assets		**24,827,295**	20,890,745
TOTAL ASSETS		**107,446,306**	105,368,114

Consolidated Balance Sheet (continued)

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

Liabilities and shareholders' equity	Note V	**2012**	2011
Current liabilities			
Short-term loans	20	**17,923,607**	11,183,349
Bank advances on factored trade receivables	4	**4,168,932**	3,789,731
Derivative financial liabilities	21	**105,739**	5,305
Bills payable	22	**11,478,102**	11,149,367
Trade payables	23	**18,115,877**	21,542,885
Amount due to customers for contract works	8	**3,459,545**	3,068,804
Advances from customers	24	**3,106,638**	2,458,428
Salary and welfare payables	25	**2,346,526**	2,409,032
Taxes payable	26	**(1,161,974)**	(990,041)
Dividends payable	27	**205,783**	170,046
Other payables	28	**8,127,193**	7,526,477
Deferred income		**267,082**	74,986
Provisions	29	**291,457**	393,343
Long-term loans due within one year	30	**4,524,420**	693,099
Total current liabilities		**72,958,927**	63,474,811
Non-current liabilities			
Long-term loans	31	**989,990**	6,940,702
Bank advances on factored long-term trade receivables	10	**4,018,484**	4,156,083
Bonds payable	32	**6,107,993**	3,884,198
Deferred tax liabilities	17	**139,900**	—
Other non-current liabilities	33	**592,282**	623,545
Total non-current liabilities		**11,848,649**	15,604,528
Total liabilities		**84,807,576**	79,079,339
Shareholders' equity			
Share capital	34	**3,440,078**	3,440,078
Capital reserves	35	**9,352,643**	8,539,807
Restricted shares subject to lock-up	36	**—**	(40,537)
Surplus reserves	37	**1,587,430**	1,587,891
Retained profits	38	**7,705,022**	10,545,984
Proposed final dividends	38	**—**	686,190
Foreign currency translation differences		**(582,699)**	(527,696)
Total equity attributable to equity holders of the parent		**21,502,474**	24,231,717
Minority interests		**1,136,256**	2,057,058
Total shareholders' equity		**22,638,730**	26,288,775
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**107,446,306**	105,368,114

The financial statements set out on page 151 to 311 have been signed by:

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

Consolidated Income Statement

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

	Note V	2012	2011
Operating revenue	39	**84,219,358**	86,254,456
Less: Operating costs	39	**64,091,546**	60,157,354
Taxes and surcharges	41	**1,191,951**	1,462,901
Selling and distribution costs	42	**11,180,633**	10,953,233
Administrative expenses	43	**2,281,472**	2,431,703
Research and development costs		**8,829,194**	8,492,623
Finance expenses	46	**2,331,164**	2,356,319
Impairment losses	47	**467,050**	946,687
Add: Losses from changes in fair values	44	**(107,396)**	(88,675)
Investment income	45	**1,258,886**	1,064,549
Including: Share of profits and losses of jointly-controlled entities and associates	45	**48,123**	71,305
Operating profit/(loss)		**(5,002,162)**	429,510
Add: Non-operating income	48	**3,081,253**	2,368,710
Less: Non-operating expenses	48	**62,291**	163,084
Including: Loss on disposal of non-current assets		**19,446**	30,629
Total profit/(loss)		**(1,983,200)**	2,635,136
Less: Income tax	49	**621,421**	392,043
Net profit/(loss)		**(2,604,621)**	2,243,093
Net profit/(loss) attributable to owners of the parent		**(2,840,962)**	2,060,166
Minority interests		**236,341**	182,927
Earnings per share	50		
Basic earnings per share		**RMB(0.83)**	RMB0.61
Diluted earnings per share		**RMB(0.83)**	RMB0.61
Other comprehensive income	51	**758,380**	(350,187)
Total comprehensive income		**(1,846,241)**	1,892,906
Including:			
Total comprehensive income attributable to owners of the parent		**(2,103,307)**	1,697,115
Total comprehensive income attributable to minority interests		**257,066**	195,791

Consolidated Statement of Changes in Equity

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

2012

	Equity attributable to equity holders of the parent									
	Share Capital	Capital Reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current year's opening balance	3,440,078	8,539,807	(40,537)	1,587,891	10,545,984	686,190	(527,696)	24,231,717	2,057,058	26,288,775
II. Changes during the year										
(1) Net profit/(loss)	–	–	–	–	(2,840,962)	–	–	(2,840,962)	236,341	(2,604,621)
(2) Other comprehensive income	–	792,658	–	–	–	–	(55,003)	737,655	20,725	758,380
Total comprehensive income	–	792,658	–	–	(2,840,962)	–	(55,003)	(2,103,307)	257,066	(1,846,241)
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	–	13,456	40,537	–	–	–	–	53,993	9,502	63,495
2. Equity settled share expenses charged to equity	–	6,722	–	–	–	–	–	6,722	–	6,722
3. Disposal of subsidiaries	–	–	–	(461)	–	–	–	(461)	(384,860)	(385,321)
4. Acquisition of minority interests	–	–	–	–	–	–	–	–	(576,637)	(576,637)
(4) Profit appropriation										
1. Appropriation to surplus reserves	–	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(686,190)	–	(686,190)	(225,873)	(912,063)
3. Proposed final dividends	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(5) Transfer of shareholders' equity										
1. Transfer of capital reserve to share capital	–	–	–	–	–	–	–	–	–	–
2. Transfer of surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–
3. Surplus reserves making up of losses	–	–	–	–	–	–	–	–	–	–
III. Current year's closing balance	3,440,078	9,352,643	–	1,587,430	7,705,022	–	(582,699)	21,502,474	1,136,256	22,638,730

2011

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

Consolidated Cash Flow Statement

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

		Note V	2012	2011
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**87,302,343**	80,967,660
	Refunds of taxes		**7,588,437**	6,315,454
	Cash received relating to other operating activities	52	**600,738**	1,507,637
	Sub-total of cash inflows		**95,491,518**	88,790,751
	Cash paid for goods and services		**64,944,598**	59,892,837
	Cash paid to and on behalf of employees		**13,022,924**	13,418,931
	Cash paid for all types of taxes		**6,607,571**	5,611,652
	Cash paid relating to other operating activities	52	**9,366,409**	11,679,548
	Sub-total of cash outflows		**93,941,502**	90,602,968
	Net cash flows from operating activities	53	**1,550,016**	(1,812,217)
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**1,344,548**	1,944,838
	Cash received from return on investments		**35,817**	204,503
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**41,845**	90,615
	Net cash received for the disposal of subsidiaries		**989,185**	51,410
	Sub-total of cash inflows		**2,411,395**	2,291,366
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**2,377,654**	4,065,036
	Cash paid for acquisition of investments		**1,636,871**	1,645,035
	Sub-total of cash outflows		**4,014,525**	5,710,071
	Net cash flows from investing activities		**(1,603,130)**	(3,418,705)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**8,100**	7,137
	Including: Capital injection into subsidiaries by minority shareholders		**8,100**	7,137
	Cash received from borrowings		**45,539,644**	34,945,347
	Sub-total of cash inflows		**45,547,744**	34,952,484
	Cash repayments of borrowings		**40,920,499**	21,517,594
	Cash payments for distribution of dividends, profits and for interest expenses		**2,541,275**	2,034,481
	Including: Distribution of dividends and profits by subsidiaries to minority shareholders		**102,558**	62,274
	Sub-total of cash outflows		**43,461,774**	23,552,075
	Net cash flows from financing activities		**2,085,970**	11,400,409
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(35,310)**	(412,497)
V.	**Net increase in cash and cash equivalents**		**1,997,546**	5,756,990
	Add: cash and cash equivalents at beginning of year		**20,662,089**	14,905,099
VI.	**Net balance of cash and cash equivalents**	53	**22,659,635**	20,662,089

Balance Sheet

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

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

Balance Sheet (continued)

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

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

Income Statement

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

	Note XIII	2012	2011
Operating revenue	6	**74,032,317**	75,344,302
Less: Operating costs	6	**67,605,154**	66,202,307
Taxes and surcharges		**495,897**	467,247
Selling and distribution costs		**7,076,114**	7,703,206
Administrative expenses		**1,389,811**	1,530,847
Research and development costs		**2,470,098**	2,636,883
Finance expenses		**1,719,956**	1,431,951
Impairment losses		**(30,026)**	564,900
Add: Losses from changes in fair values		**(85,834)**	(34,799)
Investment income	7	**4,717,406**	5,248,295
Including: Share of profits and losses of jointly-controlled entities and associates	7	**16,007**	42,247
Operating profit/(loss)		**(2,063,115)**	20,457
Add: Non-operating income		**660,147**	419,854
Less: Non-operating expenses		**20,340**	119,701
Including: Loss on disposal of non-current assets		**9,326**	11,842
Total profit/(loss)		**(1,423,308)**	320,610
Less: Income tax		**4,491**	(183,183)
Net profit/(loss)		**(1,427,799)**	503,793
Other comprehensive income		**783,475**	(936)
Total comprehensive income		**(644,324)**	502,857

Statement of Changes in Equity

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

		2012							
		Share capital	Capital reserve	Restricted shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I.	**Current year's opening balance**	**3,440,078**	**8,534,677**	**(40,537)**	**925,674**	**1,309,523**	**686,190**	**(16,349)**	**14,839,256**
II.	**Changes during the year**								
	(1) Net profit/(loss)	**–**	**–**	**–**	**–**	**(1,427,799)**	**–**	**–**	**(1,427,799)**
	(2) Other comprehensive income	**–**	**784,264**	**–**	**–**	**–**	**–**	**(789)**	**783,475**
	Total comprehensive income	**–**	**784,264**	**–**	**–**	**(1,427,799)**	**–**	**(789)**	**(644,324)**
	(3) Shareholder's capital injection and capital reduction								
	1. Capital injection from shareholders	**–**	**–**	**40,537**	**–**	**–**	**–**	**–**	**40,537**
	2. Equity settled share expenses charged to equity	**–**	**6,722**	**–**	**–**	**–**	**–**	**–**	**6,722**
	3. Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	(4) Profit appropriation								
	1. Appropriation to surplus reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2. Distribution to shareholders	**–**	**–**	**–**	**–**	**–**	**(686,190)**	**–**	**(686,190)**
	3. Proposed final dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	4. Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	(5) Transfer of shareholders' equity								
	1. Transfer of capital reserve to share capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2. Transfer of surplus reserves to share capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	3. Surplus reserves making up of losses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	4. Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	(6) Others	**–**	**7,000**	**–**	**–**	**–**	**–**	**–**	**7,000**
III.	**Current year's closing balance**	**3,440,078**	**9,332,663**	**–**	**925,674**	**(118,276)**	**–**	**(17,138)**	**13,563,001**

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

Cash Flow Statement

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

		Note XIII	2012	2011
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**71,226,674**	72,514,920
	Refunds of taxes		**5,350,217**	4,554,588
	Cash received relating to other operating activities		**371,771**	4,116,964
	Sub-total of cash inflows		**76,948,662**	81,186,472
	Cash paid for goods and services		**66,348,554**	66,899,632
	Cash paid to and on behalf of employees		**4,980,404**	5,027,952
	Cash paid for all types of taxes		**753,781**	676,342
	Cash paid relating to other operating activities		**4,946,799**	6,526,821
	Sub-total of cash outflows		**77,029,538**	79,130,747
	Net cash flows from operating activities	8	**(80,876)**	2,055,725
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**—**	1,329,699
	Cash received from return on investments		**237,030**	124,088
	Cash received from the disposal of fixed assets, intangible assets and other long-term assets, net		**13,791**	86,207
	Net cash received from the disposal of subsidiaries		**1,441,534**	—
	Sub-total of cash inflows		**1,692,355**	1,539,994
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**953,535**	2,064,261
	Cash paid for acquisition of investments		**1,689,990**	1,763,675
	Sub-total of cash outflows		**2,643,525**	3,827,936
	Net cash flows from investing activities		**(951,170)**	(2,287,942)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**—**	—
	Cash received from borrowings		**25,619,869**	14,933,865
	Sub-total of cash inflows		**25,619,869**	14,933,865
	Cash repayment of borrowings		**20,680,559**	8,987,158
	Cash payments for distribution of dividends, profits and for interest expenses		**1,848,438**	1,681,469
	Sub-total of cash outflows		**22,528,997**	10,668,627
	Net cash flows from financing activities		**3,090,872**	4,265,238
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(59,123)**	(261,444)
V.	**Net increase in cash and cash equivalents**		**1,999,703**	3,771,577
	Add: cash and cash equivalents at beginning of year		**13,276,734**	9,505,157
VI.	**Net balance of cash and cash equivalents**		**15,276,437**	13,276,734

Notes to Financial Statements

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

I. CORPORATE BACKGROUND

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

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

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

Notes to Financial Statements (continued)

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

I. CORPORATE BACKGROUND (continued)

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

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

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

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

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

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

As at the close of trading on 12 February 2010, a total of 23,348,590 "ZXC1" Warrants (representing approximately 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.

Notes to Financial Statements (continued)

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

I. CORPORATE BACKGROUND (continued)

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

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

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

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

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

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

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

As at 31 December 2012, the total number of the Company's issued share capital on an accumulative basis was 3,440,078,020 shares. Please refer to Note V.34 for details.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 27 March 2013. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

Notes to Financial Statements (continued)

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation

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

The financial statements are prepared on a going concern basis.

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

2. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2012 and the results of their operations and their cash flows for the year ended 31 December 2012.

3. Financial year

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

4. Reporting currency

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

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

5. Business combination

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

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.

Notes to Financial Statements (continued)

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Business combination (continued)

Business combinations involving entities under common control (continued)

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.

6. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements for the year ended 31 December 2012. Subsidiaries are those enterprises or entities which the Company has control over.

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

Notes to Financial Statements (continued)

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Consolidated financial statements (continued)

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

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

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

7. Cash and cash equivalents

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

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.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Foreign currency translation (continued)

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

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

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

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

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

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

Notes to Financial Statements (continued)

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

II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Recognition and derecognition of financial instruments (continued)

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:

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.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

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

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

Classification and valuation of financial liabilities

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

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial liabilities (continued)

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Financial guarantee contracts

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

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.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Bonds cum warrants

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

The fair value of financial instruments

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

Impairment of financial assets

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

Assets carried at amortised cost

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

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

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

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 (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at cost

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

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

Derecognition of financial assets

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

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

10. Accounts Receivable

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

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

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 (continued)

(Prepared in accordance with PRC ASBEs)
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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 (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments

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

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

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

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

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

Notes to Financial Statements (continued)

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

12. Long-term equity investments (continued)

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

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

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

For details of impairment test methods and impairment provision methods for long-term equity investments in subsidiaries, jointly-controlled entities and associates, please refer to Note II.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 (continued)

(Prepared in accordance with PRC ASBEs)
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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 included houses and buildings leased to other parties and buildings under construction for lease to other parties in future.

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

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

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 years	5%	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 (continued)

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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 (continued)

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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	5 years
Technology know-how	3–30 years
Land use rights	50–70 years
Operating concession	3–10 years

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

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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.

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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 ranted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue (continued)

Construction contracts

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

Rental income

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

Interest income

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

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. 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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

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.

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Hedge accounting (continued)

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

Cash flow hedges

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

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

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

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.

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Impairment (continued)

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.

26. Employee benefits

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

Defined contribution pension scheme

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

Defined benefits pension scheme

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Profit distribution

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

28. Related parties

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

29. Segment reporting

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

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

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

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

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

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

30. Significant accounting judgements and estimates

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Judgements

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

Revenue Recognition

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

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

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

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

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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

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

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

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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

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

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

Impairment of fixed assets, construction in progress and intangible assets

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

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

Impairment of financial assets

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

Depreciation and amortization

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

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II. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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.

Deferred tax assets

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

Provision for inventory impairment

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

Provision for warranty

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

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 31 December 2012 was RMB1,686,158,000 (31 December 2011: Nil).

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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III TAXATION

1. Principal tax items and tax rates

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

2. Tax concession and approval documents

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

Xi'an Zhongxing New Software Company Limited, recognized as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1. The current year is its fourth profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Nanjing Zhongxingxin Software Company Limited, recognized as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1. The current year is its third profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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III TAXATION (continued)

2. Tax concession and approval documents (continued)

Shenzhen Zhongxing ICT Company Limited, recognized as a software enterprise in September 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Shen Guo Shui Nan Jian Mian Bei An (2009) No. 383. The current year is its fourth profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for the current year as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout from 2011 to 2012.

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

Shenzhen ZTE Mobile Telecom Co., Ltd is subject to an enterprise income tax rate of 15% from 2011 to 2013 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hitech Industrial Park.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% from 2011 to 2012 as a national-grade hi-tech enterprise and an Integrated Circuit Design Enterprise under the National Planning Layout.

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

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

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

ZTEsoft Technology Company Limited is a national-grade hi-tech enterprise which has been accredited as an Important Software Enterprise under the National Planning Layout from 2011 to 2012. The applicable enterprise income tax rate for the period is 10%.

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

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

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

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IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT

1. Subsidiaries

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

Type of subsidiary	Place of Representative	Legal Representive	Nature of business	Registered capital	Scope of business	Organisation number	Effective capital contribution at year-end	Balance of other items effectively representing net investment	Percentage of Shareholding (%)		Percentage of voting rights (%)	Whether statements are consolidated	Minority interests
									Direct	Indirect			
Subsidiaries acquired by way of incorporation or investment													
Shenzhen Zhongxing Software Company Limited	Shenzhen	Hou Weigui	Manufacturing	RMB51.08 million	Software development	75250847-2	RMB51.08 million	–	100%	–	100%	Yes	–
ZTE (H.K) Limited	Hong Kong	Nil	Information technology	HK995 million	General services	Nil	HK995 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Fan Qingfeng	Telecommunication services	RMB50 million	Communications engineering and technical services	76199710-8	RMB50 million	–	90%	10%	100%	Yes	–
ZTE Kangxun Telecom Company Limited	Shenzhen	Zhang Taifeng	Telecommunications and related equipment manufacturing	RMB1,755 million	Production of electronic products and accessories	27928567-1	RMB1,755 million	–	100%	–	100%	Yes	–
ZTEsoft Technology Company Limited	Nanjing	Chen Jie	Manufacturing	RMB300 million	Systems project outsourcing	74537900-0	RMB240.297 million	–	80.1%	–	80.1%	Yes	230,018
Shenzhen ZTE Mobile Telecom Co., Ltd	Shenzhen	He Shiyou	Telecommunications and related equipment manufacturing	RMB79.166 million	Production and sale of telecommunication products	73205874-2	RMB71.249 million	–	90%	–	90%	Yes	94,954
Wuxi Zhongxing Optoelectronics Technologies Company Limited	Wuxi	Li Su	Telecommunications and related equipment manufacturing	RMB10 million	Development and sales of opto electronic products	71869554-2	RMB6.5 million	–	65%	–	65%	Yes	47,046
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Zeng Xuezhong	Telecommunication service	RMB10 million	Production and sale of telecommunication products	76223980-0	RMB9 million	–	90%	–	90%	Yes	13,560
Xi'an Zhongxing New Software Company Limited	Xi'an	Hou Weigui	Telecommunications and related equipment manufacturing	RMB600 million	Software development for telecommunication services	68385252-7	RMB600 million	–	100%	–	100%	Yes	–
ZTE (Hangzhou) Company Limited	Hangzhou	He Shiyou	Telecommunications related equipment manufacturing	RMB100 million	Telecommunications and related equipment manufacturing	68908984-1	RMB100 million	–	100%	–	100%	Yes	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Tian Wenguo	Telecommunications and related equipment manufacturing	RMB60 million	Design and sales of corporate management hard/ software products	68537795-0	RMB54 million	–	90%	–	90%	Yes	36,983

Notes to Financial Statements (continued)

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

2. Changes in the scope of consolidation

New tier-one subsidiaries established during the period included ZTE Anhui Media Co., Ltd and ZTE Trunking Technology Corp.; new tier-two subsidiaries established during the period included Changsha Zhongxing Software Co., Ltd, Artvision Technologies Inc., UAB ZTE Lithuania, ZTE Colombia S.A.S,, ZTE RDC S.P.R.L, ZTE International Limited, ZTESOFT Singapore Technology PTE. Ltd, Zhongxing Telecom Service Limited, Shenzhen Btravel Service Co., Ltd, ZTE Energy Conservation Services Co., Ltd, ZTE KYRGYZSTAN Limited Liability Company, ZTE Corporation de Guatemala S.A., 克拉瑪依中興石油科技有限公司, 寧波中興智慧城市研究院有限公司, ZTEICT Qinhuangdao Technology Co., Ltd and 南京守護寶信息技術有限公司; new tier-three subsidiaries established included Nanjing ZTE Welink Technology Co., Ltd, Hengyang Zhongxing ICT Co., Ltd, ZTEJC Nigeria Limited, NETEX de Venezuela, C.A., ZTE Services Deutschland GmbH and SinoAbyssinia Information Engineering Technology P.L.C.

In 2012, the following subsidiaries are not included in the scope of consolidation:

	Disposal Date Net Assets	Beginning of year to disposal date Net Profit
Shenzhen Changfei Investment Company Limited ("Changfei")	827,262	217,374
Shenzhen Special Equipment Company Limited ("ZTE Special Equipment")	185,012	55,131
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Hetai")	30,754	2,298

Other than the aforesaid newly established and disposed subsidiaries, the scope of consolidation was consistent with that of the previous year.

	Place of registration	Nature of business	Percentage of the Group's Shareholding in total	Percentage of The Group's voting rights in total	Reason for not being a subsidiary
Shenzhen Changfei Investment Company Limited	Shenzhen	Investment	51%	51%	Disposal
Shenzhen Special Equipment Company Limited	Shenzhen	Manufacturing of Communications and related equipment	68%	68%	Disposal
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Shenzhen	Hotel management services	82%	82%	Disposal

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

2. Changes in the scope of consolidation (continued)

Shenzhen Changfei Investment Company Limited

	31 December 2012 Book value	31 December 2011 Book value
Current assets	**3,192,851**	2,664,935
Non-current assets	**499,649**	320,224
Current liabilities	**(2,783,982)**	(2,338,304)
Non-current liabilities	**(81,256)**	(3,704)
	827,262	643,151
Minority interests	**324,696**	394,984
Net assets of disposed subsidiaries attributable to shareholdings	**502,566**	—
Gains on disposal	**757,836**	—
Disposal consideration	**1,260,402**	—

	Period from 1 January to 31 December 2012
Operating revenue	**3,510,376**
Operating costs	**3,124,217**
Net profit	**217,374**

Shenzhen Special Equipment Company Limited

	30 September 2012 Book value	31 December 2011 Book value
Current assets	**226,406**	181,894
Non-current assets	**60,315**	54,003
Current liabilities	**(101,709)**	(78,570)
	185,012	157,327
Minority interests	**60,164**	72,371
Net assets of disposed subsidiaries attributable to shareholdings	**124,848**	—
Gains on disposal	**436,404**	—
Disposal consideration	**561,252**	—

Notes to Financial Statements (continued)

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

2. Changes in the scope of consolidation (continued)

Shenzhen Special Equipment Company Limited (continued)

	Period from 1 January to 30 September 2012
Operating revenue	153,190
Operating costs	39,415
Net profit	55,131

Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited

	30 June 2012 Book value	31 December 2011 Book value
Current assets	69,140	59,149
Non-current assets	4,796	28
Current liabilities	(43,182)	(27,846)
	30,754	31,331
Net assets of disposed subsidiaries attributable to shareholdings	25,172	—
Gains from disposal	2	—
Consideration for disposal	25,174	—

	Six months ended 30 June 2012
Operating revenue	18,035
Operating costs	—
Net profit	2,298

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(Prepared in accordance with PRC ASBEs)
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IV SCOPE OF CONSOLIDATION OF THE CONSOLIDATED FINANCIAL STATEMENT (continued)

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

	Average rate		Year-end rate	
	2012	2011	**2012**	2011
USD	**6.2932**	6.4618	**6.2855**	6.3009
EUR	**8.2401**	8.4845	**8.3176**	8.1625
HKD	**0.8108**	0.8308	**0.8109**	0.8107
GBP	**9.9364**	9.9649	**10.1611**	9.7116
INR	**0.1166**	0.1325	**0.1149**	0.1183
BRL	**3.2264**	3.6734	**3.0706**	3.3821
PKR	**0.0675**	0.0736	**0.0647**	0.0702
IDR	**0.0007**	0.0007	**0.0007**	0.0007
SAR	**1.6783**	1.7231	**1.6761**	1.6804
DZD	**0.0821**	0.0854	**0.0807**	0.0835
JPY	**0.0771**	0.0812	**0.0730**	0.0811
RUB	**0.2014**	0.2068	**0.2061**	0.1966
PLN	**1.9423**	2.0269	**2.0433**	1.8413

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

1. Cash

		2012			2011		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash on hand	RMB	**174**	**1.0000**	**174**	317	1.0000	317
	USD	**19**	**6.2855**	**119**	1,216	6.3009	7,662
	SAR	**140**	**1.6761**	**234**	2,461	1.6804	4,135
	DZD	**1,859**	**0.0807**	**150**	1,844	0.0835	154
	INR	**487**	**0.1149**	**56**	1,251	0.1183	148
	THB	**222**	**0.2071**	**46**	556	0.1996	111
	PLN	**277**	**2.0433**	**565**	642	1.8413	1,182
	KZT	**14,163**	**0.0418**	**592**	18,800	0.0433	814
	EGP	**93**	**1.0384**	**97**	325	1.0476	340
	Others			**90**			1,655
	Sub-total			**2,123**			16,518

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Cash (continued)

		2012			2011		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Bank deposit	RMB	11,334,312	1.0000	11,334,312	11,739,409	1.0000	11,739,409
	USD	1,141,645	6.2855	7,175,809	914,860	6.3009	5,764,441
	HKD	207,493	0.8109	168,256	82,444	0.8107	66,837
	BRL	47,998	3.0706	147,384	48,864	3.3821	165,263
	PKR	778,964	0.0647	50,399	882,764	0.0702	61,970
	EGP	4,080	1.0384	4,237	34,974	1.0476	36,639
	IDR	40,554,286	0.0007	28,388	98,347,143	0.0007	68,843
	EUR	121,194	8.3176	1,008,047	170,939	8.1625	1,395,290
	DZD	641,611	0.0807	51,778	591,653	0.0835	49,403
	MYR	23,561	2.1017	49,519	45,623	1.9866	90,635
	ETB	54,487	0.3486	18,994	119,783	0.3694	44,248
	CAD	12,228	6.3068	77,119	7,454	6.1794	46,061
	GBP	1,086	10.1611	11,034	3,037	9.7116	29,494
	THB	630,053	0.2071	130,484	468,597	0.1996	93,532
	RUB	495,303	0.2061	102,082	628,642	0.1966	123,591
	JPY	3,839,740	0.0730	280,301	2,740,823	0.0811	222,281
	VEF	84,527	1.1859	100,241	37,903	1.4653	55,539
	COP	31,140,833	0.0036	112,107	22,689,479	0.0033	74,875
	NPR	1,591,753	0.0730	116,198	679,029	0.0756	51,335
	CLP	2,669,160	0.0131	34,966	7,161,675	0.0121	86,656
	Others			1,742,465			464,229
	Sub-total			22,744,120			20,730,571

		2012			2011		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other cash	RMB	675,800	1.0000	675,800	523,646	1.0000	523,646
	USD	90,695	6.2855	570,064	31,451	6.3009	198,170
	Others			134,316			3,062
	Sub-total			1,380,180			724,878
	Total			24,126,423			21,471,967

As at 31 December 2012, the Group's cash subject to ownership restriction amounted to RMB1,380,180,000 (31 December 2011: RMB724,878,000), including acceptance bill deposits of RMB237,054,000 (31 December 2011: RMB380,083,000), letter of credit deposits of RMB38,882,000 (31 December 2011: RMB1,310,000), deposit for guarantee letter of RMB288,561,000 (31 December 2011: RMB78,088,000), dues from the People's Bank of China of RMB404,736,000 (31 December 2011: 44,464,000) and risk compensation fund to be released within one year of RMB410,947,000 (31 December 2011: RMB220,933,000).

Notes to Financial Statements (continued)

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

1. Cash (continued)

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2012, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,568,024,000 (31 December 2011: RMB1,170,599,000). Risk compensation fund to be released within one year amounting to RMB410,947,000 (31 December 2011: RMB220,933,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB3,157,077,000 (31 December 2011: RMB949,666,000) was accounted for as other non-current assets.

As at 31 December 2012, the Group's overseas currency deposits amounted to RMB5,572,193,000 (31 December 2011: RMB3,547,475,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for time deposits varies from 7 days to 1 year. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB86,608,000 (31 December 2011: RMB85,000,000) were not included in cash and cash equivalents. Out of this amount, time deposit of RMB15,000,000 was pledged by Netex Cayman Holdings Co. Ltd to secure a RMB12,571,000 loan.

2. Trading financial assets

	2012	2011
Financial assets at fair value through profit or loss	**44,919**	87,180
Derivative financial assets	**61,378**	8,438
	106,297	95,618

Financial assets at fair value through profit or loss are 1.15% of equity held by the Company in Nationz Technologies Inc. ("Nationz Technologies").

Trading in derivative financial instruments comprised two components: one component comprised transactions in forward exchange contracts with reputable banks in the PRC and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the year, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB49,456,000 (2011: RMB77,860,000) was dealt with in current profit or loss. The other component comprised the forward contract signed for purchasing the convertible bond and restricted shares between ZTE (H.K.) Limited and China All Access (Holdings) Limited.

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

3. Bills receivable

	2012	2011
Commercial acceptance bills	**1,577,628**	391,943
Bank acceptance bills	**2,704,592**	2,831,586
	4,282,220	3,223,529

As at 31 December 2012, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2011: Nil).

As at 31 December 2012, there were no trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares (31 December 2011: RMB3,260,000, accounting for 0.1% of the total amount of trade receivables). Please refer to Note VI "The relationships and transactions with related parties".

At 31 December 2012, there were no bills receivable that were endorsed but outstanding. (31 December 2011: Nil).

During the year, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group was of the view that substantially all risks and rewards relating to bills receivable with a carrying amount of RMB1,965,274,000 had been transferred and therefore the conditions for derecognising financial assets had been fulfilled. Accordingly, the relevant bills receivable were derecognised in full at their carrying value on the date of discounting. The maximum exposure to loss from the Group's continuing involvement in the endorsed bills and the undiscounted cash flows to repurchase these bills equal to their carrying amounts. The Group is of the view that the fair values of the Group's continuing involvement in the bills receivable are not significant. During the Relevant Periods, the Group has not recognized any gain or loss on the date of transfer of the discounted bills receivable. No gains or losses were recognized from the continuing involvement, both during the year or cumulatively. Moreover, not substantially all risks and rewards relating to certain bills receivable were transferred upon discounting and therefore the conditions for derecognizing financial assets were not fulfilled. As at 31 December 2012, the carrying value of discounted bills receivable not qualified for derecognition of financial assets amounted to RMB603,051,000. Out of this amount, commercial acceptances with a carrying value of RMB500,000,000 (31 December 2011: RMB78,804,000) and bank acceptances with a carrying value of RMB103,051,000 (31 December 2011: RMB932,165,000) were discounted to secure short term loans.

As at 31 December 2012, bank acceptances with a carrying value of RMB14,178,000 were pledged as security for short term loans (31 December 2011: RMB4,410,000).

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

4. Trade receivables

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

	2012			2011		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**4,930,626**	**1.0000**	**4,930,626**	9,217,277	1.0000	9,217,277
USD	**1,487,099**	**6.2855**	**9,347,163**	1,187,280	6.3009	7,480,933
EUR	**330,035**	**8.3176**	**2,745,097**	273,298	8.1625	2,230,795
BRL	**177,949**	**3.0706**	**546,410**	371,333	3.3821	1,255,885
THB	**989,601**	**0.2071**	**204,946**	2,196,521	0.1996	438,426
INR	**17,030,601**	**0.1149**	**1,956,816**	7,417,223	0.1183	877,392
Others			**2,337,118**			2,372,717
			22,068,176			23,873,425

Aging analysis of trade receivables was as follows:

	2012	2011
Within 1 year	**21,223,530**	22,848,847
1 to 2 years	**1,572,612**	1,791,118
2 to 3 years	**906,071**	723,468
Over 3 years	**1,260,574**	1,110,421
	24,962,787	26,473,854
Less: bad debt provision for trade receivables	**2,894,611**	2,600,429
	22,068,176	23,873,425

Notes to Financial Statements (continued)

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

4. Trade receivables (continued)

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

	2012				2011			
	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	**554,861**	**2**	**554,861**	**100**	591,722	2	591,722	100
For which bad debt provision has been collectively made								
0–6 months	**17,805,093**	**72**	**–**	**–**	20,303,011	77	–	–
7–12 months	**3,362,458**	**13**	**214,545**	**6**	2,462,395	10	165,875	7
13–18 months	**1,001,150**	**4**	**245,689**	**25**	1,111,816	4	308,769	28
19–24 months	**483,963**	**2**	**231,499**	**48**	626,076	2	255,038	41
2–3 years	**860,004**	**3**	**752,759**	**88**	656,806	2	556,997	85
Over 3 years	**895,258**	**4**	**895,258**	**100**	722,028	3	722,028	100
	24,407,926	**98**	**2,339,750**	**10**	25,882,132	98	2,008,707	8
	24,962,787	**100**	**2,894,611**	**12**	26,473,854	100	2,600,429	10

As at 31 December 2012, 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	179,881	179,881	100%	Debtor running into serious financial difficulties
Overseas carriers 2	165,230	165,230	100%	Debtor running into serious financial difficulties
Overseas carriers 3	66,697	66,697	100%	Debtor running into serious financial difficulties
Others	143,053	143,053	100%	Debtor running into serious financial difficulties
	554,861	554,861		

There was no write-back, write-off or recovery of individually significant trade receivables, or which individual provision for bad debts had been made, in 2012 (2011: Nil).

Notes to Financial Statements (continued)

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

4. Trade receivables (continued)

Top 5 accounts of trade receivables as at 31 December 2012 were as follows:

Customer	Amount	As a percentage of total trade receivables
Customer 1	2,676,200	10.72%
Customer 2	2,315,289	9.27%
Customer 3	2,056,274	8.24%
Customer 4	584,191	2.34%
Customer 5	315,491	1.27%
Total	7,947,445	31.84%

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 31 December 2012, trade receivables included amounts due from shareholders or related parties holding 5% or more in the voting shares amounting to RMB103,819,000 (31 December 2011: RMB114,292,000), accounting for 0.42% (31 December 2011: 0.43%) of the total amount of trade receivables. Please refer to Note VI "The relationships and transactions with related parties". No bad debt provision was being made in respect of the aforesaid due from shareholders or related parties holding 5% or more in the voting shares.

Notes to Financial Statements (continued)

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

4. Trade receivables (continued)

As at 31 December 2012, trade receivables of the Group with a book value of RMB950,000,000 (31 December 2011: RMB1,105,174,000) were subject to ownership restriction as they were pledged as security for short-term loans.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 31 December 2012, trade receivables that have been transferred but not settled by the debtors amounted to RMB6,412,550,000 (31 December 2011: RMB6,296,335,000).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognized to the extent of trade receivables transferred under continuous involvement. As at 31 December 2012, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB12,619,599,000. The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables RMB'000
Carrying value of assets under continuous involvement	**1,771,448**
Carrying value of liabilities under continuous involvement	**1,774,866**

Factored Trade Receivables that did not qualify for derecognitoin and Factored Trade Receivables recognized according to the extent of continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 31 December 2012, the amount of factored trade receivables was RMB8,183,998,000 (31 December 2011: RMB7,779,179,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2012, the amount of bank advances on factored trade receivables was RMB8,187,416,000 (31 December 2011: RMB7,945,814,000).

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

5. Other receivables

Aging analysis of other receivables was as follows:

	2012	2011
Within 1 year	**1,850,113**	1,905,644
1 to 2 years	**101,510**	149,446
2 to 3 years	**51,854**	42,860
Over 3 years	**15,864**	20,750
	2,019,341	2,118,700
Less: bad debt provision for other receivables	**—**	—
	2,019,341	2,118,700

Top 5 accounts of other receivable as at 31 December 2012 were as follows:

Due from:	**Amount**	**As a percentage of total amounts of other receivables**
Thirty-party entity 1	27,929	1.38%
Thirty-party entity 2	13,361	0.66%
Thirty-party entity 3	12,677	0.63%
Thirty-party entity 4	10,000	0.50%
Thirty-party entity 5	9,460	0.47%
Total	73,427	3.64%

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

As at 31 December 2012, other receivables included receivables due from shareholders or related parties holding 5% or more in the voting shares amounted to RMB4,924,000 (31 December 2011: Nil) and the balance of loans granted to related parties by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") amounting to RMB48,900,000 and balance of discounted bills amounting to RMB47,872,000 (31 December 2011: Nil). For details please refer to Note VI. "Relationships and Transactions with Related Parties".

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

6. Prepayments

Aging analysis of prepayments was as follows:

	2012		2011	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**742,551**	**100%**	494,200	100%

Top 5 accounts of prepayments as at 31 December 2012 were as follows:

Supplier	**Amount**	**As a percentage of total amounts of prepayments**
Supplier 1	**147,840**	**19.91%**
Supplier 2	**28,728**	**3.87%**
Supplier 3	**27,370**	**3.69%**
Supplier 4	**17,554**	**2.36%**
Supplier 5	**17,193**	**2.31%**
Total	**238,685**	**32.14%**

As a 31 December 2012, RMB148,681,000 (31 December 2011: RMB1,519,000) in the balance was prepayments made to shareholders or related parties holding 5% or more in the voting shares. For details please refer to Note VI "The relationships and transactions with related parties".

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

7. Inventories

	2012			2011		
	Book balance	**Provision For impairment**	**Carrying value**	Book balance	Provision For impairment	Carrying value
Raw materials	**3,516,391**	**307,303**	**3,209,088**	4,166,509	290,318	3,876,191
Materials under sub-contract processing	**151,706**	**1,189**	**150,517**	114,311	2,943	111,368
Work-in-progress	**968,472**	**49,187**	**919,285**	1,591,911	21,231	1,570,680
Finished goods	**3,340,073**	**356,370**	**2,983,703**	3,631,475	251,603	3,379,872
Dispatch of goods	**4,609,611**	**429,815**	**4,179,796**	6,558,308	508,040	6,050,268
	12,586,253	**1,143,864**	**11,442,389**	16,062,514	1,074,135	14,988,379

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

8. Amount due from/to customers for contract works

	2012	2011
Amount due from customers for contract works	**13,666,100**	14,588,455
Amount due to customers for contract works	**(3,459,545)**	(3,068,804)
	10,206,555	11,519,651
Contract costs incurred plus recognized profits (losses) to date	**43,111,813**	42,480,623
Less: estimated loss	**193,877**	160,242
progress billings	**32,711,381**	30,800,730
	10,206,555	11,519,651

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

	2012	2011
Available-for-sale equity instruments	**1,092,335**	819,972

Notes to Financial Statements (continued)

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

10. Long-term receivables

	2012	2011
Installment payments for the provision of telecommunication system construction projects	**1,291,443**	945,923
Less: Bad debt provision for long-term receivables	**84,801**	81,649
	1,206,642	864,274

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

For details of the transfer of long-term receivables, please refer to Note V.4. Long-term receivables comprised factored trade receivables recognized under continuous involvement as described below.

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of USD1.5 billion. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. Two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to factored trade receivables agreements. During the financing period, the banks will charge interest at 6-month USD LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2012, under the above arrangement, trade receivable due from the customer amounted to RMB7,745,078,000 (31 December 2011: RMB7,643,736,000) among which RMB6,196,062,000 (31 December 2011: RMB6,114,989,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,549,016,000 (31 December 2011: RMB1,528,747,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 31 December 2012 amounted to RMB446,075,000 (31 December 2011: RMB478,818,000), comprising RMB104,356,000 (31 December 2011: RMB101,759,000) due within one year and classified as other payables (see Note V. 28) and RMB341,719,000 (31 December 2011: RMB377,059,000) due after one year and classified as other non-current liabilities (see Note V. 33).

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

11. Investments in jointly-controlled entities and associates

2012

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

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

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

2012 (continued)

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

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

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

2011

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation Code
Jointly-controlled entities						
Bestel Communications Ltd	Company with limited liability	Republic of Cyprus	Stathis Kittis	Information technology	EUR446,915	Nil
普興移動通訊設備有限公司	Company with limited liability	China	Xu Qian	R&D, production and sales of communications equipment	RMB128,500,000	79241148-0
Associates						
Shenzhen Zhongxing Xinyu FPC Company Limited	Company with limited liability	China	Zhang Taifeng	Machinery equipment	RMB22,000,000	75252829-7
Shenzhen Fudekang Electronics Company Limited	Company with limited liability	China	Wang Honghai	Wholesaling of machinery and electronic equipment	RMB6,000,000	78924272-7
KAZNURTEL Limited Liability Company	Company with limited liability	Kazakhstan	Khairushev Askar	Manufacturing of computers and related equipment	USD3,000,000	Nil
Wuxi Kaier Technology Company Limited	Company with limited liability	China	Li Su	Machinery equipment	RMB11,332,729	76828981-7
Shenzhen Weigao Semiconductor Company Limited	Company with limited liability	China	Leng Qiming	Machinery equipment	RMB10,000,000	76346680-2
Shenzhen Decang Technology Company Limited	Company with limited liability	China	Wu Jun	Machinery equipment	RMB2,500,000	77162861-3
Shenzhen Jufei Optoelectronics Co., Ltd.	Company Limited by shares	China	Xing Qibin	Machinery equipment	RMB59,540,000	77987106-0
Shenzhen Smart Electronics Company Limited	Company with limited liability	China	Chai Zhiqiang	Machinery equipment	HKD30,000,000	77412852-6
北京中鼎盛安科技有限公司	Company with limited liability	China	Li Weixing	Computer application services	RMB4,000,000	67574463-0
思卓中興(杭州)科技有限公司	Company with limited liability	China	Ding Haomin	Sales and R&D of communications equipment	USD7,000,000	67843164-8
上海泰捷通信技術有限公司	Company with limited liability	China	Wang Jianrong	Communications products and related services	RMB10,000,000	68734538-9
上海中興群力信息科技有限公司	Company with limited liability	China	Yang Ming	Manufacturing of computers and related equipment	RMB5,000,000	69727154-7
Zhongxing Energy Company Limited	Company with limited liability	China	Hou Weigui	Energy	RMB1,290,000,000	67055270-1
廣州市鴻昌隆實業有限公司	Company with limited liability	China	Jiang Yongjun	Sales, processing and computers applications	RMB1,800,000	61869998-4

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

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

2011 (continued)

	Type of enterprise	Place of registration	Legal representative	Nature of business	Registered capital	Organisation Code
Associates (continued)						
深圳市偉文電氣有限公司	Company with limited liability	China	Zhu Weimin	Manufacturing and sales of communications related equipment	RMB500,000	69042472-3
ZTE Software Technology (Nanchang) Company Limited	Company with limited liability	China	Hong Bo	Computer application services	RMB15,000,000	77585307-6
上海與德通訊技術有限公司	Company with limited liability	China	Huang Yazhen	Communications industry and related businesses	RMB3,000,000	56310423-3
Nanjing Piaoxun Network Technology Company Limited	Company with limited liability	China	Zheng Weijie	Computer Application Services	RMB870,000	55886577-5
上海歡流傳媒有限公司	Company with limited liability	China	Zhang Dazhong	Advertisements, internet, communications, imports and exports	RMB5,000,000	58213499-9
深圳市遠行科技有限公司	Company with limited liability	China	Wu Yihai	Computer Application Services	RMB10,000,000	77030180-3
Telecom Innovations	Company with limited liability	Uzbekistan	Aliev F.A.	Sales and production of communications equipment	USD2,875,347.3	Nil

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

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

2011 (continued)

	Total assets Closing balance	Total liabilities Closing balance	Total net assets Closing balance	Operating revenue Amount for the year	Net profit Amount for the year
Jointly-controlled entities					
Bestel Communications Ltd.	4,606	96	4,510	—	—
普興移動通訊設備有限公司	300,698	267,427	33,271	436,677	881
Associates					
Shenzhen Zhongxing Xinyu FPC Company Limited	238,471	182,359	56,112	187,382	18,899
Shenzhen Fudekang Electronics Company Limited	64,872	52,174	12,698	147,084	2,892
KAZNURTEL Limited Liability Company	7,164	2,109	5,055	—	—
Wuxi Kaier Technology Company Limited	185,006	140,986	44,020	323,994	6,653
Shenzhen Weigao Semiconductor Company Limited	49,616	36,469	13,147	54,705	1,490
Shenzhen Decang Technology Company Limited	241,022	172,193	68,829	347,756	6,554
Shenzhen Jufei Optoelectronics Co., Ltd.	396,696	133,525	263,171	346,910	80,356
Shenzhen Smart Electronics Company Limited	56,644	30,599	26,045	109,920	(5,083)
北京中鼎盛安科技有限公司	708	115	593	750	(262)
思卓中興(杭州)科技有限公司	40,509	202	40,307	—	(3,994)
上海泰捷通信技術有限公司	54,566	37,438	17,128	54,862	4,120
上海中興群力信息科技有限公司	67,052	16,522	50,530	14,631	23,680
Zhongxing Energy Company Limited	2,474,727	929,845	1,544,882	104,292	110,555
ZTE Software Technology (Nanchang) Company Limited	47,755	113,871	(66,116)	24,955	(2,996)
廣州市鴻昌隆實業有限公司	6,668	5,307	1,361	11,581	127
深圳市偉文電氣有限公司	993	622	371	—	—
上海與德通訊技術有限公司	5,732	4,030	1,702	19,139	(479)
Nanjing Piaoxun Network Technology Company Limited	152	3	149	112	(381)
上海歡流傳媒有限公司	3,378	11	3,367	—	(313)
深圳市遠行科技有限公司	18,420	4,662	13,758	54,121	40,421
Telecom Innovations	36,682	10,222	26,460	16,907	4,406

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

12. Long-term equity investments

		2012	2011
Equity method			
Jointly-controlled entities	(1)	46,814	46,195
Associates	(2)	408,954	467,896
		455,768	514,091

2012

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Bestel Communications Ltd.	2,050	2,255	—	2,255	50.00%	50.00%	—
普興移動通訊設備有限公司*	43,500	43,940	619	44,559	33.85%	50.00%	—
		46,195	619	46,814			—

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

12. Long-term equity investments (continued)

2012 (continued)

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Zhongxing Xinyu FPC Company Limited	5,000	12,752	(12,752)	–	–	–	–
Shenzhen Fudekang Electronics Company Limited	1,800	3,809	(3,809)	–	–	–	–
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49.00%	49.00%	–
Wuxi Kaier Technology Company Limited	7,922	19,635	1,739	21,374	42.64%	42.64%	–
Shenzhen Weigao Semiconductor Company Limited	4,000	5,259	(5,259)	–	–	–	–
Shenzhen Decang Technology Company Limited	750	20,649	(20,649)	–	–	–	1,313
Shenzhen Jufei Optoelectronics Co., Ltd.	4,500	56,897	(56,897)	–	–	–	3,861
Shenzhen Smart Electronics Company Limited	7,051	7,813	(7,813)	–	–	–	–
北京中鼎盛安科技有限公司	1,960	651	(25)	626	49.00%	49.00%	–
思卓中興（杭州）科技有限公司	22,845	19,859	(404)	19,455	49.00%	49.00%	–
上海泰捷通信技術有限公司	4,000	6,851	(6,851)	–	–	–	–
上海中興群力信息科技有限公司	2,000	11,439	713	12,152	40.00%	40.00%	–
Zhongxing Energy Company Limited	300,000	287,787	15,005	302,792	23.26%	23.26%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	–	836	836	30.00%	30.00%	–
廣州市鴻昌隆實業有限公司	432	477	(477)	–	–	–	–
深圳市偉文電氣有限公司	175	130	(130)	–	–	–	–
上海與德通訊技術有限公司	2,000	1,904	(1,904)	–	–	–	–
Nanjing Piaoxun Network Technology Company Limited*	533	457	(394)	63	61.00%	20.00%	–
上海歡流傳媒有限公司	1,650	1,547	19	1,566	33.00%	33.00%	–
深圳市遠行科技有限公司	1,850	3,421	695	4,116	25.00%	25.00%	2,000
Telecom Innovations	4,082	4,082	240	4,322	27.70%	27.70%	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	5,400	–	5,548	5,548	18.00%	40.00%	–
北京億科三友科技發展有限公司	6,844	–	5,932	5,932	20.00%	20.00%	–
無錫鴻圖微電子技術有限公司	21,826	–	21,826	21,826	35.00%	35.00%	–
興天通訊技術（天津）有限公司	6,000	–	5,869	5,869	30.00%	30.00%	–
		467,896	(58,942)	408,954			7,174

* The shareholding percentages of the Group's interests in 普興移動通訊設備有限公司, Nanjing Piaoxun Network Technology Company Limited and Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited were inconsistent with the proportions of its voting rights in the investees, as the proportions of voting rights had been stipulated in the respective articles of association of these companies.

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

12. Long-term equity investments (continued)

2011

(1) Jointly-controlled entities

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
Bestel Communications Ltd.	2,050	2,255	—	2,255	50.00%	50.00%	—
普興移動通訊設備有限公司*	43,500	—	43,940	43,940	33.85%	50.00%	—
		2,255	43,940	46,195			—

(2) Associates

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Shareholding percentage (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Company	3,988	2,477	—	2,477	49.00%	49.00%	—
ZTE Software Technology (Nanchang) Company Limited	4,500	—	—	—	30.00%	30.00%	—
Nationz Technologies Inc.	31,559	540,495	(540,495)	—	1.15%	1.15%	10,880
Zhongxing Energy Company Limited	300,000	261,922	25,866	287,787	23.26%	23.26%	—
思卓中興(杭州)科技有限公司	22,845	2,314	17,545	19,859	49.00%	49.00%	—
Wuxi Kaier Technology Company Limited	7,922	12,375	7,259	19,635	42.64%	42.64%	—
Shenzhen Weigao Semiconductor Company Limited	4,000	4,663	596	5,259	40.00%	40.00%	—
Shenzhen Zhongxing Xinyu FPC Company Limited	5,000	9,957	2,795	12,752	22.73%	22.73%	1,500
Shenzhen Smart Electronics Company Limited	7,051	9,338	(1,525)	7,813	30.00%	30.00%	—
Shenzhen Jufei Optoelectronics Co., Ltd.	4,500	39,524	17,373	56,897	21.62%	21.62%	—
Shenzhen Fudekang Electronics Company Limited	1,800	2,942	867	3,809	30.00%	30.00%	—
Shenzhen Decang Technology Company Limited	750	18,683	1,966	20,649	30.00%	30.00%	—
北京中鼎盛安科技有限公司	1,960	779	(128)	651	49.00%	49.00%	—
上海泰捷通信技術有限公司	4,000	5,203	1,648	6,851	40.00%	40.00%	—
上海中興群力信息科技有限公司	2,000	1,967	9,472	11,439	40.00%	40.00%	—
深圳市偉文電氣有限公司	175	130	—	130	35.00%	35.00%	—
廣州市鴻昌隆實業有限公司	432	432	45	477	35.00%	35.00%	—
上海與德通訊技術有限公司	2,000	2,000	(96)	1,904	20.00%	20.00%	—
Nanjing Piaoxun Network Technology Company Limited*	533	533	(76)	457	61.00%	20.00%	—
上海歡流傳媒有限公司	1,650	—	1,547	1,547	33.00%	33.00%	—
深圳市遠行科技有限公司	1,850	—	3,421	3,421	25.00%	25.00%	—
Telecom Innovations	4,082	—	4,082	4,082	22.70%	22.70%	—
		915,734	(447,838)	467,896			12,380

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

13. Investment Properties

	Opening Balance	Transferred from owned properties	Closing balance
Cost			
Fixed assets	—	270,006	270,006
Construction in progress	—	451,309	451,309
Land use rights	—	47,853	47,853
	—	769,168	769,168
Appreciation of investment properties reclassified from owned properties upon valuation on the date of reclassification	—	932,669	932,669
Fair value on date of reclassification	—	1,701,837	1,701,837
Changes in fair value	—	(15,679)	(15,679)
Carrying value	—	1,686,158	1,686,158
Completed investment properties			633,289
Investment properties in progress			1,052,869
			1,686,158

During the year, 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. These buildings were reclassified from owned properties to investment properties. In addition, certain buildings under construction have also been reclassified from construction in progress to investment properties because of the change in use. The total fair value as at the date of reclassification was RMB1,701,837,000. Losses arising from changes in fair value from the date of reclassification to 31 December 2012 amounted to RMB15,679,000. For details please refer to Note V. 44.

The investment properties of the Group were located in areas where there were active property trading markets, where market rental prices and other relevant information for properties of the same nature or similar may be obtained from the property trading market to arrive at a scientific and reasonable estimate of the fair value of the investment properties. The investment properties of the Group were valued by 深圳市天健國衆聯資產評估土地房地產估價有限公司 using the income method by reference to current leases or objective market transaction prices for similar properties in neighbouring regions and discounted amounts of expected future income.

As at 31 December, investment properties with a carrying value of RMB1,136,244,000 (31 December 2011: Nil) had yet to obtain title registration certificates.

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

14. Fixed Assets

2012

	Opening balance	Increase during the year	Decrease during the year	Exchange Rate adjustments	Closing balance
Cost					
Buildings	4,346,743	793,813	(386,950)	(23,922)	4,729,684
Freehold land	78,943	–	–	(7,271)	71,672
Electronic equipment	3,343,721	580,672	(287,233)	(4,087)	3,633,073
Machinery equipment	2,372,838	239,356	(254,482)	(5,777)	2,351,935
Vehicles	353,636	27,161	(31,765)	(987)	348,045
Other equipment	205,117	34,418	(9,434)	(3,812)	226,289
	10,700,998	1,675,420	(969,864)	(45,856)	11,360,698
Accumulated depreciation					
Buildings	554,524	178,990	(69,893)	(3,157)	660,464
Freehold land	–	–	–	–	–
Electronic equipment	1,730,249	592,559	(222,673)	(1,641)	2,098,494
Machinery equipment	1,181,228	189,759	(146,510)	(2,797)	1,221,680
Vehicles	146,057	35,685	(14,132)	(622)	166,988
Other equipment	85,116	35,563	(4,813)	(1,477)	114,389
	3,697,174	1,032,556	(458,021)	(9,694)	4,262,015
Provision for impairment					
Buildings	–	–	–	–	–
Freehold land	–	–	–	–	–
Electronic equipment	–	–	–	–	–
Machinery equipment	–	2,559	(500)	–	2,059
Vehicles	–	–	–	–	–
Other equipment	–	–	–	–	–
	–	2,559	(500)	–	2,059
Net book value					
Buildings	3,792,219	614,823	(317,057)	(20,765)	4,069,220
Freehold land	78,943	–	–	(7,271)	71,672
Electronic equipment	1,613,472	(11,887)	(64,560)	(2,446)	1,534,579
Machinery equipment	1,191,610	47,038	(107,472)	(2,980)	1,128,196
Vehicles	207,579	(8,524)	(17,633)	(365)	181,057
Other equipment	120,001	(1,145)	(4,621)	(2,335)	111,900
	7,003,824	640,305	(511,343)	(36,162)	7,096,624

Notes to Financial Statements (continued)

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

14. Fixed Assets (continued)

2011

	Opening balance	Increase during the year	Decrease during the year	Exchange Rate adjustments	Closing balance
Cost					
Buildings	3,836,137	623,004	(104,332)	(8,066)	4,346,743
Freehold land	—	96,010	—	(17,067)	78,943
Electronic equipment	2,908,652	852,372	(393,963)	(23,340)	3,343,721
Machinery equipment	2,739,926	469,732	(761,898)	(74,922)	2,372,838
Vehicles	354,919	57,184	(54,049)	(4,418)	353,636
Other equipment	139,668	82,446	(6,872)	(10,125)	205,117
	9,979,302	2,180,748	(1,321,114)	(137,938)	10,700,998
Accumulated depreciation					
Buildings	469,203	152,785	(64,538)	(2,926)	554,524
Freehold land	—	—	—	—	—
Electronic equipment	1,544,362	495,769	(299,301)	(10,581)	1,730,249
Machinery equipment	1,246,411	276,051	(312,703)	(28,531)	1,181,228
Vehicles	150,096	34,456	(36,364)	(2,131)	146,057
Other equipment	45,725	49,569	(5,976)	(4,202)	85,116
	3,455,797	1,008,630	(718,882)	(48,371)	3,697,174
Net book value					
Buildings	3,366,934	470,219	(39,794)	(5,140)	3,792,219
Freehold land	—	96,010	—	(17,067)	78,943
Electronic equipment	1,364,290	356,603	(94,662)	(12,759)	1,613,472
Machinery equipment	1,493,515	193,681	(449,195)	(46,391)	1,191,610
Vehicles	204,823	22,728	(17,685)	(2,287)	207,579
Other equipment	93,943	32,877	(896)	(5,923)	120,001
	6,523,505	1,172,118	(602,232)	(89,567)	7,003,824

Depreciation for 2012 amounted to RMB1,032,556,000 (2011: RMB1,008,630,000).

In 2012, transfer from construction in progress to fixed assets amounted to RMB859,262,000 (2011: RMB867,055,000) at cost.

The carrying value of fixed assets reclassified as investment properties in 2012 was RMB270,006,000 (2011: Nil).

As at 31 December 2012, no houses or buildings were pledged as security for the preservation of properties subject to legal proceedings (31 December 2011: Nil). No Houses and buildings were under ownership restriction (31 December 2011: Houses and buildings with a carrying value of RMB6,800,000 were under ownership restriction as they had been pledged as security for borrowings).

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

14. Fixed Assets (continued)

2011 (continued)

As at 31 December 2012, machinery and equipment with a book value of RMB225,208,000 (31 December 2011: RMB252,894,000) was under ownership restriction as they had been pledged as security for borrowings.

As at 31 December 2012, there were no retired fixed assets or idle fixed assets pending disposal (31 December 2011: Nil).

As at 31 December 2012, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an and Anhui in China with a net book value of approximately RMB3,464,499,000 (31 December 2011: RMB3,073,017,000).

15. Construction in progress

2012

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Transfer to investment properties during the year	Closing balance	Source of funds
Nanjing R&D Centre	Nil	730	729	1,459	–	–	Internal resources
Shanghai R&D Centre Phase II	Nil	759	–	759	–	–	Internal resources
Staff quarters	Nil	613,485	158,461	739,000	–	32,946	Internal resources
Sanya R&D Base Project	Nil	2,041	1,562	–	–	3,603	Internal resources
Equipment installation	Nil	135,383	9,700	106,694	–	38,389	Internal resources
Xi'an District 2 Phase I	Nil	504,556	178,838	–	–	683,394	Internal resources
Xi'an Technology Park Site A10	Nil	175,763	65,173	–	231,941	8,995	Internal resources
Technology Park C3 R&D Centre	Nil	120,379	114,850	–	219,368	15,861	Internal resources
Heyuan R&D training Center Phase I	Nil	87	9,372	–	–	9,459	Internal resources
Industrial Park North Phase II	Nil	94	–	–	–	94	Internal resources
Others	Nil	27,185	15,811	11,350	–	31,646	Internal resources
Total:		1,580,462	554,496	859,262	451,309	824,387	

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

15. Construction in progress (continued)

2011

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Closing balance	Source of funds
Liuxiandong ZTE Industrial Park Phase I	1,000,000	70,152	731	(70,883)	—	Internal resources
Nanjing R&D Centre	Nil	42,193	5,837	(47,300)	730	Internal resources
Shanghai R&D Centre Phase II	Nil	23,808	—	(23,049)	759	Internal resources
Xi'an Technology Park Phase II	Nil	4,571	—	(4,571)	—	Internal resources
Staff quarters	Nil	623,928	339,260	(349,703)	613,485	Internal resources
Sanya R&D Base Project	Nil	1,123	918	—	2,041	Internal resources
Equipment installation	Nil	62,868	176,395	(103,880)	135,383	Internal resources
Xi'an District 2 Phase I	Nil	21,408	483,148	—	504,556	Internal resources
Xi'an Technology Park Site A10	Nil	80,894	147,171	(52,302)	175,763	Internal resources
Technology Park C3 R&D Centre	Nil	38,362	82,017	—	120,379	Internal resources
Heyuan R&D training Center Phase I	Nil	—	87	—	87	Internal resources
Industrial Park North Phase II	Nil	—	94	—	94	Internal resources
Others	Nil	177,432	65,120	(215,367)	27,185	Internal resources
Total:		1,146,739	1,300,778	(867,055)	1,580,462	

As at 31 December 2012, there was no capitalized interest in the balance of the construction in progress (31 December 2011: Nil).

As at 31 December 2012, construction in progress with a book value of RMB683,394,000 (31 December 2011: Nil) was under ownership restriction as they had been pledged as security for borrowings.

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

16. Intangible assets

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Cost				
Software	387,537	173,930	(122,496)	438,971
Technology know-how	6,984	3,705	—	10,689
Land use right	950,235	240,815	(200,876)	990,174
Operating concessions	335,490	—	(112,585)	222,905
	1,680,246	418,450	(435,957)	1,662,739
Accumulated amortization				
Software	288,433	71,603	(47,108)	312,928
Technology know-how	4,435	396	—	4,831
Land use right	63,005	17,233	(5,414)	74,824
Operating concessions	123,105	53,691	—	176,796
	478,978	142,923	(52,522)	569,379
Net book value				
Software	99,104	102,327	(75,388)	126,043
Technology know-how	2,549	3,309	—	5,858
Land use right	887,230	223,582	(195,462)	915,350
Operating concessions	212,385	(53,691)	(112,585)	46,109
	1,201,268	275,527	(383,435)	1,093,360
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use right	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Book value				
Software	99,104	102,327	(75,388)	126,043
Technology know-how	2,549	3,309	—	5,858
Land use right	880,908	223,582	(195,462)	909,028
Operating concessions	212,385	(53,691)	(112,585)	46,109
	1,194,946	275,527	(383,435)	1,087,038

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

16. Intangible assets (continued)

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Cost				
Software	389,217	52,509	(54,189)	387,537
Technology know-how	7,184	—	(200)	6,984
Land use right	827,574	124,583	(1,922)	950,235
Operating concessions	94,157	296,966	(55,633)	335,490
	1,318,132	474,058	(111,944)	1,680,246
Accumulated amortization				
Software	308,508	31,967	(52,042)	288,433
Technology know-how	4,004	491	(60)	4,435
Land use right	46,022	16,983	—	63,005
Operating concessions	61,986	89,199	(28,080)	123,105
	420,520	138,640	(80,182)	478,978
Net book value				
Software	80,709	20,542	(2,147)	99,104
Technology know-how	3,180	(491)	(140)	2,549
Land use right	781,552	107,600	(1,922)	887,230
Operating concessions	32,171	207,767	(27,553)	212,385
	897,612	335,418	(31,762)	1,201,268
Provision for impairment				
Software	—	—	—	—
Technology know-how	—	—	—	—
Land use right	6,322	—	—	6,322
Operating concessions	—	—	—	—
	6,322	—	—	6,322
Book value				
Software	80,709	20,542	(2,147)	99,104
Technology know-how	3,180	(491)	(140)	2,549
Land use right	775,230	107,600	(1,922)	880,908
Operating concessions	32,171	207,767	(27,553)	212,385
	891,290	335,418	(31,762)	1,194,946

Amortisation of intangible assets in 2012 amounted to RMB142,923,000 (2011: RMB138,640,000).

At 31 December 2012, intangible assets with a book value of RMB24,171,000 (31 December 2011: RMB3,681,000) were subject to ownership restriction as they had been pledged as security for borrowings.

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

16. Intangible assets (continued)

2011 (continued)

As at 31 December 2012, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB476,871,000 (31 December 2011: RMB469,647,000).

The carrying value of land use rights reclassified as investment properties in 2012 was RMB47,853,000 (2011: Nil).

Deferred development costs are analysed as follows:

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	**238,900**	**130,130**	**77,953**	**291,077**
System Products	**1,686,710**	**754,234**	**285,087**	**2,155,857**
	1,925,610	**884,364**	**363,040**	**2,446,934**

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	187,049	136,194	84,343	238,900
System Products	1,279,455	582,042	174,787	1,686,710
	1,466,504	718,236	259,130	1,925,610

Deferred development costs accounted for 9.10% of total research and development costs in 2012 (2011: 7.8%).

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

17. Deferred tax assets/liabilities

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

Deferred tax assets and liabilities recognised:

	2012	2011
Deferred tax assets		
Unrealized profits arising on consolidation	**148,805**	90,557
Provision for impairment in inventory	**109,550**	86,465
Foreseeable contract losses	**2,640**	10,265
Amortization of deferred development costs	**60,990**	36,913
Provision for warranties and returned goods	**28,101**	51,904
Provision for retirement benefits	**8,902**	8,108
Deductible tax losses	**499,344**	482,340
Accruals	**171,683**	141,816
Overseas taxes pending deduction	**188,590**	220,468
	1,218,605	1,128,836

	2012	2011
Deferred tax liabilities		
Appreciation of fixed assets, construction in progress and land use rights upon valuation	**(139,900)**	—
	1,078,705	1,128,836

Deductible tax losses of unrecognized deferred tax assets:

	2012	2011
Deductible tax losses	**7,927,125**	1,784,749

Unrecognized tax losses expire in the following years:

	2012	2011
2012	**—**	9,375
2013	**2,188**	2,091
2014	**20,328**	19,429
After 2014	**7,904,609**	1,753,854
	7,927,125	1,784,749

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

17. Deferred tax assets/liabilities (continued)

Temporary differences in items of assets or liabilities:

	2012	2011
Deductible temporary differences		
Unrealized profits arising on consolidation	**483,076**	313,159
Provision for inventory impairment	**1,143,864**	1,074,135
Foreseeable contract losses	**193,877**	160,242
Capitalization of deferred development costs	**411,818**	254,430
Provision for maintenance and returned goods	**246,692**	347,610
Provision for retirement benefits	**54,041**	48,716
Accruals	**1,187,364**	780,531
Overseas taxes pending deduction	**1,257,267**	1,469,786
	4,977,999	4,448,609
Taxable temporary differences		
Appreciation of fixed assets, construction in progress and land use rights upon valuation	**932,669**	—

Note According to the Enterprise Income Tax Law of the People's Republic of China and the Implementation Regulations for Enterprise Income Tax of the People's Republic of China which took effect on 1 January 2008, dividend income payable to overseas investors derived from profit of PRC subsidiaries generated after 1 January 2008 is subject to a 10% withholding tax, or 5% for companies incorporated in Hong Kong. As at 31 December 2012, the Group did not recognize income tax liabilities in respect of tax obligations arising from future distribution of the retained profits of the subsidiary Xi'an Zhongxing Software Company Limited, because the Group controlled the dividend policies of these subsidiaries and was of the view that profit generated in the relevant periods would not be available for distribution in the foreseeable future.

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

18. Provision for impairment of assets

2012

	Opening balance	Provision for the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	**2,682,078**	**378,295**	**(47,811)**	**(33,150)**	**2,979,412**
Including: Trade receivables	**2,600,429**	**378,295**	**(47,684)**	**(36,429)**	**2,894,611**
Long-term receivables	**81,649**	**—**	**(127)**	**3,279**	**84,801**
Provision for impairment of inventories	**1,074,135**	**307,448**	**(173,441)**	**(64,278)**	**1,143,864**
Provision for impairment of Fixed assets	**—**	**2,559**	**—**	**(500)**	**2,059**
Provision for impairment of intangible assets	**6,322**	**—**	**—**	**—**	**6,322**
	3,762,535	**688,302**	**(221,252)**	**(97,928)**	**4,131,657**

2011

	Opening balance	Provision for the year	Decrease during the year		Closing balance
			Write-back	Write-off	
Bad debt provision	2,182,947	618,479	(41,942)	(77,406)	2,682,078
Including: Trade receivables	2,089,518	618,469	(36,176)	(71,382)	2,600,429
Long-term receivables	93,429	10	(5,766)	(6,024)	81,649
Provision for impairment of inventories	716,779	457,639	(87,489)	(12,794)	1,074,135
Provision for impairment of intangible assets	6,322	—	—	—	6,322
	2,906,048	1,076,118	(129,431)	(90,200)	3,762,535

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.

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

19. Other non-current assets

	2012	2011
Prepayments for project and equipment	**217,482**	161,722
Up-front fee	**—**	529,518
Risk compensation fund	**3,157,077**	949,666
Other long-term receivables	**229,744**	—
	3,604,303	1,640,906

20. Short-term loans

		2012		2011		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**2,013,000**	**2,013,000**	4,396,321	4,396,321	
	USD	**1,463,901**	**9,201,347**	723,357	4,557,801	
	JYP	**—**	**—**	500,000	40,552	
	INR	**2,309,334**	**265,416**	650,000	76,889	
Guaranteed loans	USD	**895,207**	**5,626,824**	—	—	Note 1
Secured loans	RMB	**—**	**—**	11,800	11,800	
Bill discounted loans	RMB	**603,051**	**603,051**	1,010,402	1,010,402	Note 2
Pledged loans	RMB	**213,969**	**213,969**	1,085,174	1,085,174	Note 3
	USD	**—**	**—**	700	4,410	
			17,923,607		11,183,349	

At 31 December 2012, the annual interest rate of the above loans ranged from 1.30%–12.75% (31 December 2011: 2.00%–12.60%).

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

20. Short-term loans (continued)

Note 1: ZTE (H.K.) Limited ("ZTE HK"), a subsidiary of the Company, entered into a syndicated loan agreement ("Loan Agreement") with an aggregate amount of USD900 million with 10 international banks, including Bank of China (Hong Kong) Limited (the "Syndicate"), in 2011. The loans were guaranteed by the Company. Balances and outstanding terms of the loans as at the end of the current year are set out as follows:

					Balance at the end of 2012		Balance at the end of 2011	
	Drawdown date	Due date	Currency	Interest rate (%)	**Foreign currency**	**RMB equivalent**	Foreign currency	RMB equivalent
The Syndicate	2011.8.15	2016.8.15	USD	Approx. 3%	**444,829**	**2,795,973**	438,418	2,762,428
The Syndicate	2011.7.20	2014.7.20	USD	Approx. 2%	**350,327**	**2,201,980**	345,467	2,176,751
The Syndicate	2011.8.15	2014.8.15	USD	Approx. 2%	**100,051**	**628,871**	98,663	621,666
						5,626,824		5,560,845

As at the end of the reporting period, the Group did not comply with the requirement of the Loan Agreement in respect of one financial benchmark, so the balance of long-term bank borrowing was reclassified to short-term. ZTE HK has applied to the lending bank for exemption from early loan repayment, and such application for exemption will take effect when the approval of no less than 2/3 of the amount of syndicate loan facility is granted. As at 27 March 2013, approval has been obtained in respect of 58% of the loan facility amount. The Company is of the view that the matter will not have any significant impact of the Group's operations.

Note 2 Bill discounted loans were loans discounted by bank acceptance bills and commercial acceptance bills.

Note 3 Pledged loans were loans secured by trade receivables and bills.

21. Derivative financial liability

	2012	2011
Derivative financial liability	**99,630**	2,433
Hedging instruments—current portion	**6,109**	2,872
	105,739	5,305

Descriptions of hedging instruments and related hedging:

	2012	2011
Interest rate swap agreement	**16,856**	4,120
Non-current portion	**10,747**	1,248
Current portion	**6,109**	2,872

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

21. Derivative financial liability (continued)

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and the net loss of RMB12,736,000 was included in shareholders' equity.

	2012	2011
Net fair value loss included in shareholders' equity	**12,736**	4,120
Net loss on cash flow hedging	**12,736**	4,120

22. Bills payable

	2012	2011
Bank acceptance bills	**6,069,555**	3,562,896
Commercial acceptance bills	**5,408,547**	7,586,471
	11,478,102	11,149,367

Bills payable due in the next accounting period amounted to RMB11,478,102,000 (31 December 2011: RMB11,149,367,000). As at 31 December 2012, the balance of this item included an amount of RMB2,844,000 payable to corporate shareholders holding 5% or more of the Company's voting rights (31 December 2011: RMB45,329,000). For details please refer to Note VI "The relationships and transactions with related parties".

23. Trade payables

An aging analysis of the trade payables are as follows:

	2012	2011
0 to 6 months	**17,605,286**	21,114,221
7 to 12 months	**177,299**	299,452
1 to 2 years	**267,454**	87,206
2 to 3 years	**31,811**	13,278
Over 3 years	**34,027**	28,728
	18,115,877	21,542,885

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

As at 31 December 2012, trade payables included amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB220,873,000 (31 December 2011: RMB267,259,000). For details please refer to Note VI "The relationships and transactions with related parties".

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

24. Advances from customers

	2012	2011
Advanced payments for system project work	1,886,887	1,561,280
Advanced payments for terminals	1,219,751	897,148
	3,106,638	2,458,428

As at 31 December 2012, advances from customers included amounts due to shareholders or related parties holding 5% or more in the voting share amounting RMB6,618,000 (31 December 2011: RMB11,251,000). For details please refer to Note VI "The relationships and transactions with related parties".

25. Salary and welfare payables

2012

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	1,579,721	11,026,154	(11,165,833)	1,440,042
Staff welfare	43,502	627,489	(651,100)	19,891
Social insurance	60,642	1,238,571	(1,242,921)	56,292
Including: Pension Insurance	42,950	750,667	(752,967)	40,650
Medical Insurance	16,941	379,988	(381,679)	15,250
Unemployment Insurance	(25)	59,149	(59,202)	(78)
Working Injuries Insurance	631	22,488	(22,914)	205
Maternity Insurance	145	26,279	(26,159)	265
Housing funds	25,648	348,445	(346,911)	27,182
Labour union fund and employee education fund	699,519	370,278	(266,678)	803,119
	2,409,032	13,610,937	(13,673,443)	2,346,526

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

25. Salary and welfare payables (continued)

2011

	Opening balance	Accruals	Payments	Closing balance
Salary, bonus and allowance	2,468,214	10,772,624	(11,661,117)	1,579,721
Staff welfare	26,076	693,078	(675,652)	43,502
Social insurance	16,979	1,204,630	(1,160,967)	60,642
Including: Pension Insurance	10,568	730,096	(697,714)	42,950
Medical Insurance	6,295	369,575	(358,929)	16,941
Unemployment Insurance	207	57,528	(57,760)	(25)
Working Injuries Insurance	(58)	21,872	(21,183)	631
Maternity Insurance	(33)	25,559	(25,381)	145
Housing funds	34,470	338,896	(347,718)	25,648
Labour union fund and employee education fund	552,188	360,131	(212,800)	699,519
	3,097,927	13,369,359	(14,058,254)	2,409,032

26. Tax payable

	2012	2011
Value-added tax	**(2,465,186)**	(2,415,940)
Business tax	**559,338**	360,607
Income tax	**608,336**	880,275
PRC tax	**271,213**	518,668
Overseas tax	**337,123**	361,607
Individual income tax	**76,259**	127,488
City maintenance and construction tax	**43,217**	42,263
Education surcharge	**29,602**	48,871
Other taxes	**(13,540)**	(33,605)
	(1,161,974)	(990,041)

27. Dividend payable

	2012	2011
Dividend payable to holders of restricted shares	**152**	128
Dividend payable to minority shareholders	**205,631**	169,918
	205,783	170,046

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

28. Other payables

	2012	2011
Employee subscriptions under the share incentive scheme	**–**	30,572
Accruals	**539,104**	605,634
Contributions to staff housing	**614,189**	464,800
Payables to external parties	**6,080,349**	5,863,687
Deposits	**22,197**	21,409
Factored interests payable	**104,356**	101,759
Payables to employees	**406,003**	320,108
Others	**360,995**	118,508
	8,127,193	7,526,477

As at 31 December 2012, other payables include amounts due to shareholders or related parties holding 5% or more in the voting shares amounting to RMB1,923,000 (31 December 2011: RMB2,722,000) and the balance of deposits received by ZTE Group Finance from related parties amounting to RMB15,050,000 (31 December 2011: Nil). For details please refer to Note VI "The relationships and transactions with related parties".

29. Provisions

2012

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Outstanding litigation	**45,733**	**2,452**	**(3,420)**	**44,765**
Provision for returned handsets	**73,519**	**2,888**	**(25,150)**	**51,257**
Provision for warranties	**274,091**	**300,119**	**(378,775)**	**195,435**
	393,343	**305,459**	**(407,345)**	**291,457**

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation	45,617	3,455	(3,339)	45,733
Provision for returned handsets	45,524	44,040	(16,045)	73,519
Provision for warranties	169,552	472,112	(367,573)	274,091
	260,693	519,607	(386,957)	393,343

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

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

	2012	2011
Long-term loans due within one year	506,286	693,099
Bonds cum warrants due within one year	4,018,134	—
	4,524,420	693,099

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

		2012		2011	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	500,000	500,000	—	—
	USD	—	—	110,000	693,099
Guaranteed loans	USD	1,000	6,286	—	—
			506,286		693,099

As at 31 December 2012, long-term loans due within one year were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate (%)	Balance at the end of 2012 Foreign currency	Balance at the end of 2012 RMB equivalent	Balance at the end of 2011 Foreign currency	Balance at the end of 2011 RMB equivalent
The Export-Import Bank of China	2011.2.1	2013.2.1	RMB	Approx. 4%	500,000	500,000	500,000	500,000
Shanghai Pudong Development Bank	2011.8.11	2013.8.11	USD	Approx. 3%	1,000	6,286	1,000	6,301

As at 31 December 2012, bonds cum warrants due within one year were as follows:

	Carrying value	Issue date	Term of the bond	Issue amount	Liability cost as at the date of issue	Opening balance	Interest accruable for the year	Interest payable for the year	Closing balance
Bonds cum warrants	RMB100	2008.1.30	5 years	4,000,000	3,381,234	3,884,198	165,936	(32,000)	4,018,134

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

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

On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each and a total amount of RMB4 billion. The bonds and the warrants are listed on The Stock Exchange of Shenzhen. The bonds with warrants are guaranteed by China Development Bank, and are fully redeemable within 5 years from the date of issue. Holders of the bonds have also been issued 1.63 warrants at nil consideration for every bond issued and therefore a total of 65,200,000 warrants have been issued. The warrants are valid for 24 months from the date of listing. Holders of the Warrants are entitled to subscribe for one A Share for every two warrants held at an initial exercise price of RMB78.13 per share. In the event of any ex-rights or ex-dividend netting of share prices during the effective period for the warrants, the exercise price and exercise ratio of the warrants will be adjusted accordingly. As the Company distributed share dividend and issued bonus shares during 2008 and 2009, the exercise price of the warrants was adjusted to RMB42.394 per share and the exercise ratio was adjusted to the subscription of 0.922 A share for every one warrant held.

As at the close of trading on 12 February 2010, a total of 23,348,590 "中興ZXCI" warrants were exercised and 21,523,411 new shares were issued as a result.

The coupon interest rate of the bonds cum warrants is 0.8% per annum payable on 30 January of each year. At the issue of the bonds, interest rates of similar bond issues (without warrants) in the market were higher than the interest rate of the bond cum warrants.

The fair value of the liability component of the bonds cum warrants was assessed by reference to interest rates of similar bond issues (without warrants) in the market at the issue date.

The net book value of the liability component of the bonds cum warrants at the issue date was set out as follows:

Coupon value of Bonds cum Warrants	4,000,000
Equity component	(580,210)
Direct transaction costs attributable to the liability component	(38,556)
Liability component at issue date	3,381,234

The convertible bonds were due and fully paid on 30 January 2013.

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

31. Long-term loans

		2012		2011		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**2,000**	**2,000**	500,000	500,000	
	USD	**—**	**—**	100,000	630,090	
Guaranteed loans	USD	**—**	**—**	883,548	5,567,145	
Secured loans	RMB	**281,215**	**281,215**	—	—	Note 1
	USD	**28,704**	**180,419**	38,640	243,467	Note 1
Pledged loan	RMB	**513,785**	**513,785**	—	—	Note 2
	USD	**2,000**	**12,571**	—	—	Note 2
			989,990		6,940,702	

Note 1: Out of the secured loans, an amount of RMB281,215,000 was secured by land use rights with a carrying value of RMB24,171,000 and plant under construction with a carrying value of RMB683,394,000 provided by Xi'an Zhongxing New Software Company Limited; RMB180,419,000 was secured by existing network equipment with a carrying value of RMB225,208,000 and future assets to be formed under loan agreements provided by Closed Joint Stock Company TK Mobile.

Note 2: Out of the pledged loans, an amount of RMB513,785,000 was pledged against trade receivables with a carrying value of RMB750,000,000 by Xi'an Zhongxing New Software Company Limited and an amount of RMB12,571,000 was pledged against time deposit bills with a carrying value of RMB15,000,000 by Netex Cayman Holdings Co., Ltd.

As at 31 December 2012, the top five long-term loans were as follows:

	Loan Drawdown date	Loan Due date	Currency	Interest rate (%)	**Balance at the end of 2012** **Foreign currency**	**RMB equivalent**	Balance at the end of 2011 Foreign currency	RMB equivalent
Bank of China	2012.4.25	2015.4.25	RMB	Approx. 7%	**513,785**	**513,785**	—	—
Bank of China	2012.4.25	2015.4.25	RMB	Approx. 7%	**281,215**	**281,215**	—	—
China Development Bank	2006.10.15	2016.10.15	USD	Approx. 2%	**28,704**	**180,419**	38,640	243,467
Shanghai Pudong Development Bank	2012.11.27	2014.11.27	USD	Approx. 3%	**2,000**	**12,571**	—	—
China International Trust and Investment Corporation	2012.11.15	2015.11.14	RMB	0%	**2,000**	**2,000**	—	—

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

32. Bonds payable

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance	
Bonds cum Warrants	**3,884,198**	**165,936**	**(4,050,134)**	**—**	**Note 1**
Bonds payable	**—**	**6,107,993**	**—**	**6,107,993**	**Note 2**
	3,884,198	**6,273,929**	**(4,050,134)**	**6,107,993**	

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Bonds cum Warrants	3,755,790	160,408	(32,000)	3,884,198

Note 1 On 30 January 2008, the Company issued 40,000,000 bonds with warrants with a nominal value of RMB100 each and a total amount of RMB4 billion and are fully redeemable within 5 years from the date of issue. Balance of outstanding bonds as at the end of the period has been reclassified as non-current liabilities due within one year. For details please refer to Note V. 30.

Note 2 On 13 June 2012, the Company issued 3-year unsecured corporate bonds for a total amount of RMB6 billion. The corporate bonds carry a coupon interest rate of 4.2% with bond interest payable annually on 13 June. As at the issue date, liability costs arising from the deduction of issue expenses amounted to RMB5,965,212,000.

33. Other non-current liabilities

	2012	2011
Long-term financial guarantee contract	**3,689**	3,689
Provision for retirement benefits	**54,041**	48,716
Factored interests payable	**341,719**	377,059
Hedging instruments — non-current portion	**10,747**	1,248
Deferred income relating to staff housing	**182,086**	192,833
	592,282	623,545

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

34. Share capital

2012

	Opening balance	Increase/(decrease) during the year Note 1	Closing balance
Restricted shares			
Domestic natural person shares	**9,126**	**(6,589)**	**2,537**
Senior management shares	**8,330**	**394**	**8,724**
Total number of restricted shares	**17,456**	**(6,195)**	**11,261**
Unrestricted shares			
RMB Ordinary shares	**2,793,037**	**6,195**	**2,799,232**
Overseas listed foreign shares	**629,585**	**—**	**629,585**
Total number of unrestricted shares	**3,422,622**	**6,195**	**3,428,817**
Total number of shares	**3,440,078**	**—**	**3,440,078**

2011

		Increase/(decrease) during the year			
	Opening balance	Transfer from capital reserve	Others	Sub-total	Closing balance
Restricted shares					
Domestic natural person shares	60,142	12,028	(63,044)	(51,016)	9,126
Senior management shares	6,776	1,389	165	1,554	8,330
Total number of restricted shares	66,918	13,417	(62,879)	(49,462)	17,456
Unrestricted shares					
RMB Ordinary shares	2,275,159	454,999	62,879	517,878	2,793,037
Overseas listed foreign shares	524,655	104,930	—	104,930	629,585
Total number of unrestricted shares	2,799,814	559,929	62,879	622,808	3,422,622
Total number of shares	2,866,732	573,346	—	573,346	3,440,078

Note 1 On 24 December 2012, 735 Scheme Participants under the second award of the Phase I Share Incentive Scheme fulfilled the conditions for the third unlocking of Subject 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 accordance with relevant domestic regulations, shares held by departed or newly assigned Directors, Supervisors or senior management shall be under lock-up.

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

35. Capital reserves

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	**8,410,165**	**32,680**	**—**	**8,442,845**
Changes in shareholders' equity and other capital reserves of investees under equity method other than net profit and loss	**41,260**	**—**	**—**	**41,260**
Changes in the fair value of available-for-sale financial assets	**—**	**12,625**	**—**	**12,625**
Appreciation of fixed assets, construction in progress and land use rights upon valuation (Note 2)	**—**	**792,769**	**—**	**792,769**
Change in fair value of hedging instruments	**(4,120)**	**—**	**(12,736)**	**(16,856)**
Equity settled transaction (Note 3)	**12,502**	**6,722**	**(19,224)**	**—**
Capital injection from government	**80,000**	**—**	**—**	**80,000**
	8,539,807	**844,796**	**(31,960)**	**9,352,643**

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,487,495	496,016	(573,346)	8,410,165
Changes in shareholders' equity and other capital reserves of investees under equity method other than net profit and loss	41,260	—	—	41,260
Change in fair value of hedging instruments	—	—	(4,120)	(4,120)
Equity settled transaction	462,220	41,821	(491,539)	12,502
Capital injection from government	80,000	—	—	80,000
	9,070,975	537,837	(1,069,005)	8,539,807

Note 1 As at 24 December 2012, 735 Scheme Participants under the Second Award had fulfilled the conditions for the Third Unlocking of the Subjects Shares under the Phase I Share Incentive Scheme. The total number of Subject Shares to be unlocked was 6,589,151 A shares. An corresponding amount of RMB19,224,000, previously accounted for in Capital Reserve — Share-based Payments, was transferred to Capital Reserve — Capital Premium. In June 2011, due to the increase in capital of the Company's subsidiary ZTEsoft Technology Company Limited, capital reserve — share capital premium was increased by RMB13,456,000.

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

35. Capital reserves (continued)

2011 (continued)

Note 2 For the six months ended 30 June 2012, the Group's owned properties were reclassified as investment properties subsequently measured at fair value and a value appreciation of RMB932,669,000 was recorded upon assessment on the date of reclassification. Deferred income tax liabilities amounted to RMB139,900,000. For details please refer to Note V.13, 17.

Note 3 In 2012, equity-settled share-based payments with a total amount of RMB6,722,000 were recognized as current expenses.

36. Restricted shares subject to lock-up

In July 2009, all of the 85,006,813 Subject Shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis. Unlocking conditions in respect of the first unlocking of 14,559,708 Subject Shares, being 20% of the First Award had been fulfilled and were listed on 23 July 2009.

Unlocking conditions in respect of the second unlocking of 35% Subject Shares of the First Award had been fulfilled and 26,452,094 shares were listed on 4 June 2010. The proposals of profit distribution and capitalisation from capital reserve for 2009 were implemented on 24 June 2010, whereby 5 shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled was adjusted to 64,928,143 shares accordingly. Unlocking conditions in respect of the first unlocking of 20% Subject Shares of the Second Award had been fulfilled and 2,520,957 shares were listed on 15 December 2010.

The proposals of profit distribution and capitalisation from capital reserve of the Company for 2010 were implemented on 7 July 2011, whereby 2 shares were issued for every 10 shares held. As a result, registered Subject Shares for which unlocking conditions had not been fulfilled was adjusted to 74,888,624 shares accordingly. Unlocking conditions in respect of the third unlocking of 45% Subject Shares of the First Award had been fulfilled and 60,532,063 shares were listed on 21 July 2011. Unlocking conditions in respect of the second unlocking of 35% of the Second Award had been fulfilled and 5,230,667 shares were listed on 29 December 2011. Unlocking conditions in respect of the third unlocking of 6,589,151 Subject Shares, being 45% of the Second Award had been fulfilled and were listed on 24 December 2012.

As at 31 December 2012, the unlocking of all Subject Shares that had fulfilled the unlocking conditions under the Phase I Share Incentive Scheme of the Company was completed. Out of the registered Subject Shares, A total of 2,536,742 Subject Shares lapsed as a result of the resignation of relevant employees or failure to comply with unlocking conditions relating to performance appraisal. Subscription costs for the lapsed Subject Shares previously paid by the Scheme Participants had been refunded to such Scheme Participants in accordance with relevant terms of the Share Incentive Scheme. For details of the Share Incentive Scheme, please refer to Note VII. Share-based payment.

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

37. Surplus reserves

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	**1,587,891**	**—**	**(461)**	**1,587,430**

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,537,512	50,379	—	1,587,891

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.

38. Retained profits

	2012	2011
Retained profits at the beginning of the year	**10,545,984**	9,222,387
Net profit/(loss)	**(2,840,962)**	2,060,166
Less: Statutory surplus reserves	**—**	50,379
Proposed final dividend	**—**	686,190
Retained profits at the end of the year	**7,705,022**	10,545,984

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

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

39. Operating revenue and costs

Operating revenue is analysed as follows:

	2012	2011
Revenue	**83,971,363**	85,866,525
Other income	**247,995**	387,931
	84,219,358	86,254,456

Operating cost is analysed as follows:

	2012	2011
Costs of sales	**63,894,239**	59,848,244
Other operating expenses	**197,307**	309,110
	64,091,546	60,157,354

Principal operations by product:

	2012		2011	
	Revenue	**Cost**	Revenue	Cost
Networks	**41,602,641**	**29,677,097**	46,522,048	28,305,798
Terminals	**25,838,804**	**21,498,788**	26,933,508	22,843,765
Telecommunications software, services and other products	**16,529,918**	**12,718,354**	12,410,969	8,698,681
	83,971,363	**63,894,239**	85,866,525	59,848,244

Principal operations by geography:

	2012		2011	
	Revenue	**Cost**	Revenue	Cost
The PRC	**39,369,621**	**28,974,782**	39,164,458	26,050,064
Asia (excluding the PRC)	**16,001,139**	**12,649,537**	15,587,670	11,522,377
Africa	**7,820,599**	**5,504,339**	10,669,852	5,674,103
Europe, America and Oceania	**20,780,004**	**16,765,581**	20,444,545	16,601,700
	83,971,363	**63,894,239**	85,866,525	59,848,244

Notes to Financial Statements (continued)

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

39. Operating revenue and costs (continued)

Details of operating revenue generated from top 5 customers in 2012 was as follows:

2012

Name of customer	Amount	As a percentage of total operating revenue
Customer 1	11,254,790	13.37%
Customer 2	8,802,487	10.45%
Customer 3	7,337,803	8.71%
Customer 4	2,090,403	2.48%
Customer 5	1,393,316	1.65%
	30,878,799	36.66%

Sales to the top five customers of the Group generated revenue of RMB30,878,799,000 in 2012 (2011: RMB29,096,531,000), accounting for 36.66% (2011: 33.73%) of the operating revenue of the Group respectively.

40. Construction contracts

Construction contracts are stated as the sum of accumulated costs and accumulated gross profit (loss) recognized less settled contract amounts and expected losses on contracts. See Note V. 8. In current year, no single contract accounted for more than 10% of the operating revenue.

41. Taxes and surcharges

	2012	2011
Business tax	**636,812**	902,012
City maintenance and construction tax	**272,157**	283,939
Education surcharge	**202,272**	196,805
Others	**80,710**	80,145
	1,191,951	1,462,901

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

42. Selling and distribution costs

	2012	2011
Wages, welfare and bonuses	**4,054,141**	3,851,279
Consulting and services charges	**2,993,890**	2,448,883
Travelling expenses	**790,856**	1,035,633
Transportation and fuel charges	**552,475**	508,079
Office expenses	**360,407**	285,239
Advertising and promotion expenses	**516,256**	415,156
Rental fees	**461,181**	313,263
Communication expenses	**132,059**	122,047
Others	**1,319,368**	1,973,654
	11,180,633	10,953,233

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

43. Administrative expenses

	2012	2011
Wages, welfare and bonuses	**856,223**	935,246
Office expenses	**130,381**	220,168
Amortization and depreciation charges	**310,592**	306,362
Taxes	**151,358**	201,962
Rental fees	**161,297**	196,614
Travelling expenses	**96,874**	106,296
Others	**574,747**	465,055
	2,281,472	2,431,703

44. Losses from changes in fair values

	2012	2011
Derivative financial instruments	**(49,456)**	(77,860)
Financial assets at fair value through profit or loss	**(42,261)**	(10,815)
Investment properties at fair value	**(15,679)**	—
	(107,396)	(88,675)

45. Investment income

	2012	2011
Investment income from long-term equity investment under equity method	**48,123**	71,305
Investment income from long-term equity investment under cost method	**13,069**	11,061
Investment income from the disposal of trading financial assets	**6,908**	128,550
Investment income from Nationz Technologies	**—**	866,503
Investment income from the disposal of available-for-sale financial assets	**—**	5,931
Investment gains/(losses) from the disposal of equity interests	**1,190,786**	(18,801)
	1,258,886	1,064,549

As at 31 December 2012, the Company was not subject to significant restrictions in remitting its investment income.

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

46. Financial expenses

	2012	2011
Interest expenses	1,888,481	1,374,163
Less: Interest income	149,409	283,618
Loss on foreign currency exchange	136,113	836,993
Cash discounts and interest subsidy	127,956	95,962
Bank charges	328,023	332,819
	2,331,164	2,356,319

47. Impairment Losses

	2012	2011
Bad debt provisions	330,484	576,537
Inventories provisions	134,007	370,150
Impairment losses on fixed assets	2,559	—
	467,050	946,687

48. Non-operating income/Non-operating expenses

Non-operating income

	2012	2011	The amount in the non-recurring profit/loss of the period
Refund of VAT on software products (Note 1)	2,108,253	1,596,681	—
Others (Note 2)	973,000	772,029	559,605
	3,081,253	2,368,710	559,605

Note 1 Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Note 2 Others include government grant, gains from contract penalties and other gains.

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

48. Non-operating income/Non-operating expenses (continued)

Non-operating expenses

	2012	2011	The amount in the nonrecurring profit/loss of the period
Compensation	**2,993**	91,277	2,993
Loss arising from the disposal of non-current assets	**19,446**	30,629	19,446
Others	**39,852**	41,178	39,852
	62,291	163,084	62,291

49. Income tax

	2012	2011
Current income tax	**711,190**	954,801
Deferred income tax	**(89,769)**	(562,758)
	621,421	392,043

Reconciliation between income tax and total profit/(loss) was a follows:

	2012	2011
Total profit/(loss)	**(1,983,200)**	2,635,136
Tax at statutory tax rate (Note 1)	**(495,800)**	658,784
Effect of different tax rates applicable to certain subsidiaries	**(63,206)**	(499,077)
Adjustment to current tax in previous periods	**(40,047)**	44,357
Profits and losses attributable to jointly-controlled entities and associates	**(19,195)**	(12,910)
Income not subject to tax	**(303,867)**	(324,956)
Expenses not deductible for tax	**216,111**	198,044
Utilization of tax losses from previous years	**(59,414)**	(66,310)
Unrecognized tax losses	**1,386,839**	394,111
Tax charge at the Group's effective rate	**621,421**	392,043

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

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

50. Earnings per share

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

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

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

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

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

	2012	2011
Earnings		
Net profit/(Loss) attributable to ordinary shareholders of the Company for the year	**(2,840,962)**	2,060,166
Shares		
Weighted average number of ordinary shares of the Company	**3,430,952**	3,390,411
Diluting effect — weighted average number of ordinary shares		
Restricted Shares under share incentive scheme	**—**	6,874
Adjusted weighted average number of ordinary shares of the Company	**3,430,952**	3,397,285

51. Other comprehensive income

	2012	2011
Change in fair values of hedging instruments	**(12,736)**	(4,120)
Change in fair values of available for sale financial assets	**30,792**	—
Appreciation of owned properties reclassified to investment properties upon valuation on the date of reclassification	**792,769**	—
Differences arising from foreign currency translation	**(52,445)**	(346,067)
	758,380	(350,187)

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

52. Notes to cash flow statement

	2012	2011
Cash received in connection with other operating activities:		
Interest income	**149,409**	283,618
Cash paid in connection with other operating activities:		
Selling and distribution costs	**6,869,445**	6,851,199
Administrative expenses and research and development costs	**2,372,982**	2,748,303

53. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement:

Reconciliation of net profit/(loss) to cash flows from operating activities:

	2012	2011
Net profit/(loss)	**(2,604,621)**	2,243,093
Add: Provision for impairment of assets	**467,050**	946,687
Depreciation of fixed assets	**1,032,556**	1,008,630
Amortisation of intangible assets and deferred development costs	**505,963**	397,770
Amortisation of long-term deferred assets	**10,411**	17,768
Loss on disposal of fixed assets, intangible assets and other long-term assets	**19,446**	30,629
Loss from changes in fair value	**107,396**	88,675
Finance expenses	**2,024,594**	1,330,388
Investment income	**(1,258,886)**	(1,064,549)
Increase in deferred tax assets	**(89,769)**	(473,591)
Increase/(decrease) in deferred tax liabilities	**139,900**	(89,167)
Decrease/(increase) in inventories	**3,411,983**	(3,254,859)
Increase in operating receivables	**(4,114,258)**	(9,317,255)
Increase in operating payables	**4,754,242**	6,473,093
Cost of share-based payment	**6,722**	41,821
Increase in cash not immediately available for payments	**(2,862,713)**	(191,350)
Net cash flow from operating activities	**1,550,016**	(1,812,217)

Notes to Financial Statements (continued)

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

53. Supplemental information on cash flow statement (continued)

(2) Disposal of subsidiaries information

	2012		
	Changfei	ZTE Special Equipment	Hetai
Consideration for the disposal of subsidiaries	**1,260,402**	**561,252**	**25,174**
Disposal of cash and cash equivalents received by subsidiaries	**888,000**	**528,360**	**25,174**
Less: Disposal of cash and cash equivalents held by subsidiaries	**281,315**	**134,142**	**36,892**
Disposal of net cash received by subsidiaries	**606,685**	**394,218**	**(11,718)**
Disposal of net assets of subsidiaries	**827,262**	**185,012**	**30,754**
Current assets	**3,192,851**	**226,406**	**69,140**
Non-current assets	**499,649**	**60,315**	**4,796**
Current liabilities	**(2,783,982)**	**(101,709)**	**(43,182)**
Non-current liabilities	**(81,256)**	**—**	**—**

(3) Change in cash and cash equivalents:

	2012	2011
Cash		
Including: Cash on hand	**2,123**	16,518
Bank deposit readily available	**22,657,512**	20,645,571
Cash and cash equivalents at end of year	**22,659,635**	20,662,089

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Type of enterprise	Place of registration	Legal Representative	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)	Organisation number
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Company with limited liability	Shenzhen, Guangdong	Xie Wei Liang	Manufacturing	RMB100 million	30.76%	30.76%	19222451-8

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note IV. Scope of Consolidation of the Consolidated Financial Statements.

3. Jointly-controlled entities and associates

Details of the jointly-controlled entity and associates are set out in Note V. 11.

Notes to Financial Statements (continued)

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties

	Relationship	Organisation number
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder as the Company	75049913-8
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same controlling shareholder as the Company	78390928-7
Shenzhen Zhongxing Xinyu FPC Company Limited	Under the same controlling shareholder as the Company	75252829-7
南京中興群力資訊科技有限公司	Subsidiary of an associate of the Company	69837419-3
Zhongxing Energy (Inner Mongolia) Company Limited	Subsidiary of an associate of the Company	69594973-X
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company	56420239-6
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company	69741992-7
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company	56720442-6
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company	57076139-7
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company	59224568-4
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder	27941498X
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder	H0420141-X
深圳市中興昆騰有限公司	Subsidiary of the Company's controlling shareholder	58273445-X
中興儀器（深圳）有限公司	Subsidiary of the controlling shareholder of the Company	589193625
深圳市中興環境儀器有限公司	Subsidiary of the controlling shareholder of the Company	761958483
Mobi Antenna Technologies (Shenzhen) Company Limited	Company for which a supervisor of the Company's controlling shareholder acted as director	71522427-8
Shenzhen Zhongxing Information Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder	715233457
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	Shareholder of the Company's controlling shareholder	76678817-X
Zhongxing Intelligent Transport System (Wuxi) Company Limited*	Senior management of the Company concurrently acting as director of the related party	72260457-8

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship	Organisation number
CASIC Shenzhen (Group) Company, Limited	Subsidiary of a company for which a Director of the Company acted as director	74516580-3
深圳市航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
Shenzhen Aerospace Guangyu Industrial Company Limited	Company for which a Director of the Company acted as director	19217503-1
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	76591251-1
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	79590131-1
Huatong Technology Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	66527177-X
中興軟件技術（瀋陽）有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	550779506
中興長天信息技術（南昌）有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	677968072
三河中興發展有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	78409578-0
三河中興物業服務有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	67854891-8
Zhongxing Development Company Limited**	Company for which the Chairman of the Company concurrently acted as chairman	75048467-3

* The senior management of the Company resigned as senior management of Zhongxing Intelligent Transport System (Wuxi) Company Limited with effect from 27 December 2011, therefore Zhongxing Intelligent Transport System (Wuxi) Company Limited has ceased to be a related party of the Company since 27 December 2012.

** Former related party of the Group Shenzhen Zhongxing Development Company was renamed Zhongxing Development Company Limited during the year.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) The transaction of goods with related parties:

Sales of goods to related parties:

	2012		2011	
	Amount	**Percentage (%)**	Amount	Percentage (%)
Shenzhen Zhongxing Information Company Limited	**8,140**	**0.01**	10,187	0.01
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**2,910**	**–**	2,444	–
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**950**	**–**	150	–
Zhongxing Intelligent Transport System (Wuxi) Company Limited	**19,543**	**0.02**	66,476	0.08
ZTE Software Technology (Nanchang) Company Limited	**3**	**–**	130	–
Mobi Antenna Technologies (Shenzhen) Company Limited	**202**	**–**	–	–
Shenzhen Weigao Semiconductor Company Limited***	**6,432**	**0.01**	5,862	0.01
南京中興群力資訊科技有限公司	**2,390**	**–**	6,692	0.01
普興移動通訊設備有限公司	**125,836**	**0.15**	318,490	0.37
Zhongxing Energy (Inner Mongolia) Company Limited	**–**	**–**	73	–
Shenzhen Zhongxing Xinyu FPC Company Limited	**–**	**–**	521	–
Wuxi Kaier Technology Company Limited	**–**	**–**	505	–
Zhongxing Energy (Shenzhen) Company Limited	**–**	**–**	22	–
Shenzhen Shenglongfeng Industrial Company Limited	**–**	**–**	25	–
北京協力超越科技有限公司	**15**	**–**	4	–
中興長天信息技術(南昌)有限公司	**2**	**–**	–	–
Zhongxing Energy (Hubei) Company Limited	**211**	**–**	–	–
中興軟件技術（瀋陽）有限公司	**44**	**–**	–	–
上海與德通訊技術有限公司***	**693**	**–**	–	–
Shenzhen Yuanxing Technology Co., Ltd.	**10**	**–**	–	–
深圳市中興昆騰有限公司	**998**	**–**	–	–
Zhongxing Development Company Limited**	**2**	**–**	–	–
Shenzhen Fudekang Electronics Company Limited***	**202**	**–**	–	–
	168,583	**0.19**	411,581	0.48

In 2012, sales to related parties accounted for 0.19% of the Group's total sales. (2011: 0.48%).

*** Changfei been deconsolidated from the Group accounts with effect from December 2012. The associate companies of Changfei, including Shenzhen Weigao Semiconductor Company Limited, 上海與德通訊技術有限公司, Shenzhen Decang Technology Company Limited, Shenzhen Smart Electronics Company Limited, Shenzhen Jufei Optoelectronics Company Limited and Shenzhen Fudekang Electronics Company Limited have ceased to be related parties of the Group. Related party transactions with the 6 aforesaid companies set out above included only transactions with the Group occurring during the period in which they were related parties of the Group.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) The transaction of goods with related parties: (continued)

Purchase of goods from related parties:

	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	235,557	0.51	355,172	0.68
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	177,884	0.39	131,315	0.25
Shenzhen Zhongxing Information Company Limited	2,069	–	1,480	–
Xi'an Microelectronics Technology Research Institute	354	–	1,701	–
Shenzhen Zhongxing Xinyu FPC Company Limited	118,356	0.26	40,135	0.08
Nationz Technologies Inc.****	–	–	21,224	0.04
Wuxi KaiEr Technology Company Limited	124,246	0.27	174,399	0.34
Shenzhen Decang Technology Company Limited***	35,166	0.08	47,674	0.09
Shenzhen Fudekang Electronics Company Limited***	18,115	0.04	69,998	0.13
ZTE Software Technology (Nanchang) Company Limited	21,393	0.05	4	–
Shenzhen Jufei Optoelectronics Co., Ltd.	6,576	0.01	10,752	0.02
Mobi Antenna Technologies (Shenzhen) Company Limited	278,106	0.60	274,070	0.53
Shenzhen Smart Electronics Company Limited***	–	–	558	–
Zhongxing Xinzhou Complete Equipment Company Limited	82	–	7,583	0.01
Shenzhen Shenglongfeng Industrial Company Limited	31,851	0.07	27,677	0.05
Shenzhen Weigao Semiconductor Company Limited***	35,788	0.08	48,349	0.10
Shenzhen Yuanxing Technology Co., Ltd.	12,364	0.03	4,734	0.01
Zhongxing Energy (Tianjin) Company Limited	–	–	1,215	–
南京中興群力信息科技有限公司	52	–	–	–
Huatong Technology Company Limited	52,128	0.11	–	–
Shenzhen Aerospace Guangyu Industrial Company Limited	2,280	–	–	–
CASIC Shenzhen (Group) Company Limited	2,586	0.01	–	–
深圳市航天歐華科技發展有限責任公司	400	–	–	–
Zhongxing Energy (Shenzhen) Company Limited	1,006	–	–	–
Zhongxing Energy (Tianjin) Company Limited	1,020	–	–	–
中興儀器（深圳）有限公司	3,477	0.01	–	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	13,126	0.03	–	–
南京中興和泰酒店管理有限公司	1,233	–	–	–
上海市和而泰酒店投資管理有限公司	2,466	0.01	–	–
	1,177,681	2.56	1,218,040	2.33

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(1) The transaction of goods with related parties: (continued)

Purchase of goods from related parties: (continued)

In 2012, purchases from related parties accounted for 2.56% of the Group's total purchases (2011: 2.33%).

**** Investments in Nationz Technologies was reclassified from investment in an associate to financial assets measured at fair value and dealt with in the profit and loss of the current period the of the Company following a change in the Company's intentions for shareholdings in Nationz Technologies, a former associate, in May 2011. For 2012, Nationz Technologies was no longer a related party of the Company.

(2) Leasing with related parties:

Lease of properties to related parties:

2012

	Property leased	Starting date	Ending date	Lease gain recognised for the year
Zhongxing Development Company Limited**	Office	1/1/2011	12/31/2012	1,696
北京協力超越科技有限公司	Office	1/1/2011	12/31/2012	37
Shenzhen Zhongxing WXT Equipment Company Limited	Office	8/9/2011	3/31/2012	17
Zhongxing Energy (Shenzhen) Company Limited	Office	12/1/2011	3/31/2012	150
Zhongxing Energy (Hubei) Company Limited	Office	7/1/2011	6/30/2014	211
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	12/1/2011	11/30/2014	293
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	7/1/2012	6/30/2013	4,040
南京中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	2,138
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	4,970
西安中興和泰酒店管理有限公司	Property and equipment and facilities	7/1/2012	6/30/2013	2,948

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(2) Leasing with related parties: (continued)

2011

	Property leased	Starting date	Ending date	Lease gain recognised for the year
Zhongxing Development Company Limited**	Office	1/1/2011	12/31/2012	1,696
北京協力超越科技有限公司	Office	1/1/2011	12/31/2012	37
Shenzhen Zhongxing WXT Equipment Company Limited	Office	8/9/2011	6/9/2013	27
Zhongxing Energy (Shenzhen) Company Limited	Office	1/1/2011	8/31/2013	273
Zhongxing Energy (Hubei) Company Limited	Office	7/1/2011	6/30/2014	106

Lease of properties from related parties:

2012

	Property leased	**Starting date**	**Ending date**	**Lease cost recognised for the year**
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**Office**	**4/18/2010**	**4/17/2013**	**8,827**
Zhongxing Development Company Limited**	**Office**	**4/18/2007**	**4/17/2013**	**40,645**
Chongqing Zhongxing Development Company Limited	**Office**	**1/1/2012**	**12/31/2014**	**8,930**
三河中興發展有限公司	**Office**	**8/1/2011**	**3/17/2013**	**1,101**
三河中興物業服務有限公司	**Office**	**8/1/2011**	**3/17/2013**	**271**

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(2) Leasing with related parties: (continued)

2011

	Property leased	Starting date	Ending date	Lease Gain
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4/18/2010	4/17/2013	8,827
Zhongxing Development Company Limited**	Office	4/18/2007	4/17/2013	40,593
三河中興發展有限公司	Office	3/18/2011	3/17/2013	827
三河中興物業服務有限公司	Office	3/18/2011	3/17/2013	166
Chongqing Zhongxing Development Company Limited	Office	10/23/2008	10/22/2011	4,430
	Office	10/23/2011	12/31/2011	1,050

(3) Guarantees for related parties:

Receiving guarantees from related parties

In 2012 and 2011, no guarantee was provided by related parties to any subsidiary of the Group.

(4) Transfer of equity interests to related parties

	2012	2011
無錫鴻圖微電子技術有限公司	**1,425**	—
Zhongxing Development Company Limited **	**25,174**	—
	26,599	—

(5) Transfer of assets to related parties

		2012
無錫鴻圖微電子技術有限公司	Sale of intangible assets	**25,310**
無錫鴻圖微電子技術有限公司	Sale of fixed assets	**466**
		25,776

(6) Other major related transactions

	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Remuneration of key management personnel	**9,272**	**0.07%**	25,489	0.19%

Notes to Financial Statements (continued)

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(6) Other major related transactions (continued)

Notes:

(i)	Commercial transactions with related parties:	Commercial transactions with related parties was conducted by the Group at market price during the year.
(ii)	Leasing property from related parties:	Office space was leased to the aforesaid related parties by the Group during the year and lease income of RMB16,500,000 (2011: RMB2,139,000) was recognized in accordance with relevant lease contracts. Office space was leased from related parties by the Group during the year and lease costs of RMB59,774,000 (2011: RMB55,893,000 was recognized in accordance with relevant lease contracts.
(iii)	Guarantee for related parties:	This year, the Company has not provided new guarantees for related parties.
(iv)	Other major related transactions:	The total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB9,272,000 (2011: RMB25,489,000). There was no cost for share-based payment (2011: RMB1,174,000).

6. Commitments with related parties

(1) In December 2012, the Group entered into a purchase agreement for a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries for the purchase of raw materials for use in production. The maximum amounts of total purchases by the Group from the said related companies for the years 2013–2015 are estimated at RMB900 million, RMB1,000 million and RMB1,100 million (before VAT), respectively.

(2) In December 2012, the Group entered into a purchase agreement for a term of 3 years with Mobi Antenna Technologies (Shenzhen) Company Limited for the purchase of raw materials for use in production. The maximum amounts of total purchases by the Group for the years 2013–2015 are estimated at RMB600 million, RMB800 million and RMB900 million (before VAT), respectively.

(3) In June 2012, the Group entered into a purchase agreement for a term of 1 year with Huatong Technology Company Limited for the purchase of software and outsourcing services. For details of purchases conducted during the year, please refer to Note VI. 5 (1). The maximum amount of total purchases by the Group for 2013 is estimated at RMB78 million (before VAT).

(4) In June 2012, the Group entered into a purchase agreement for a term of 1 year with ZTE Software Technology (Nanchang) Company Limited for the purchase of software and outsourcing services. For details of purchases conducted during the year, please refer to Note VI. 5 (1)The maximum amount of total purchases by the Group for 2013 is estimated at RMB33 million (before VAT).

Notes to Financial Statements (continued)

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(5) In June 2012, the Group entered into a purchase agreement for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiary for the purchase of hotel services. For details of purchases conducted during the year, please refer to Note VI. 5 (1). The maximum amount of purchase of hotel services from 1 July 2012 to 30 June 2013 is estimated at RMB90 million.

(6) In July 2011, the Group entered into a property lease contract with Zhongxing Energy (Hubei) Company Limited. For details of rental income generated during the year, please refer to Note VI. 5 (2). The amounts of rental income for 2013 and 2014 are estimated at RMB212,000 and RMB106,000, respectively.

(7) In June 2012, the Group entered into a property lease contract for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiary. For details of rental income generated during the year, please refer to Note VI. 5 (2). The total related rental income from 1 July 2012 to 30 June 2013 is estimated at RMB46 million.

(8) In November 2010, the Group entered into a lease agreement for a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The rental fee for 2013 is estimated at approximately RMB2,942,000.

(9) In April 2010, the Group entered into a lease agreement for a term of 3 years with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). In December 2012, the Group entered into a lease agreement for a term of 2 years from 18 April 2013 to 17 April 2015 with Zhongxing Development Company Limited. The maximum annual rental fee for each year is estimated at approximately RMB50.80 million.

(10) In December 2011, the Group entered into a lease agreement for a term of 3 years with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The maximum annual rental fee for each of 2013 and 2014 is estimated at approximately RMB11.40 million.

(11) In August 2011, the Group entered into a lease agreement for a term of 2.5 years with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The maximum rental fee for 2013 is estimated at approximately RMB307,000.

(12) In August 2011, the Group entered into a lease agreement for a term of 2.5 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note VI. 5 (2). The maximum rental fee for 2013 is estimated at approximately RMB141,000.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	2012	2011
Bills receivable	Zhongxing Intelligent Transport System (Wuxi) Company Limited*	—	3,260
Trade receivables	ZTE Software Technology (Nanchang) Company Limited	—	52
	Zhongxing Intelligent Transport System (Wuxi) Company Limited*	—	13,513
	Shenzhen Weigao Semiconductor Company Limited***	—	1,467
	Shenzhen Zhongxing Information Company Limited	598	10,084
	普興移動通訊設備有限公司	100,819	88,966
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	346	77
	Shenzhen Zhongxing Xinyu FPC Company Limited	85	133
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	680	—
	北京協力超越科技有限公司	8	—
	Mobi Antenna Technologies (Shenzhen) Company Limited	58	—
	南京中興群力信息科技有限公司	648	—
	深圳市中興昆騰有限公司	577	—
		103,819	114,292
Prepayments	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	484	484
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	642
	Shenzhen Zhongxing Information Company Limited	357	393
	Wuxi Kaier Technology Company Limited	147,840	—
		148,681	1,519
Other receivables	無錫鴻圖微電子技術有限公司	4,924	—
Dividends receivable	Shenzhen Zhongxing Xinyu FPC Company Limited	—	1,500
	Shenzhen Yuanxing Technology Co., Ltd.	400	—
		400	1,500

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

Item	Name of related parties	2012	2011
Bills payable	Wuxi Kaier Technology Company Limited	1,048	7,564
	Shenzhen Fudekang Electronics Company Limited***	—	95
	Shenzhen Weigao Semiconductor Company Limited***	—	5,083
	Shenzhen Decang Technology Company Limited***	—	30,711
	Shenzhen Smart Electronics Company Limited***	—	71
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	—	665
	Mobi Antenna Technologies (Shenzhen) Company Limited	270	—
	Shenzhen Zhongxing Xinyu FPC Company Limited	1,526	1,140
		2,844	45,329
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	65,376	70,404
	Shenzhen Fudekang Electronics Company Limited***	—	13,335
	Shenzhen Weigao Semiconductor Company Limited***	—	11,476
	Shenzhen Decang Technology Company Limited***	—	2,176
	Shenzhen Jufei Optoelectronics Co., Ltd.***	—	2,066
	Shenzhen Smart Electronics Company Limited***	—	87
	Wuxi Kaier Technology Company Limited	17,138	78,985
	Shenzhen Zhongxing Xinyu FPC Company Limited	556	1,236
	Mobi Antenna Technologies (Shenzhen) Company Limited	79,773	34,807
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	31,508	24,958
	Zhongxing Xinzhou Complete Equipment Company Limited	592	2,514
	Shenzhen Zhongxing WXT Equipment Company Limited	328	433
	Shenzhen Zhongxing Information Company Limited	5,212	15,021
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176
	Shenzhen Shenglongfeng Industrial Company Limited	9,075	9,585
	Shenzhen Yuanxing Technology Co., Ltd.	7,610	—
	ZTE Software Technology (Nanchang) Company Limited	338	—
	中興儀器（深圳）有限公司	3,191	—
		220,873	267,259

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

Item	Name of related parties	2012	2011
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,323
	Zhongxing Intelligent Transport System (Wuxi) Company Limited*	**—**	4,924
	普興移動通訊設備有限公司	**777**	—
	Xi'an Microelectronics Technology Research Institute	**2**	2
	北京協力超越科技有限公司	**98**	54
	南京中興群力信息科技有限公司	**302**	360
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**—**	588
	深圳市中興環境儀器有限公司	**112**	—
		6,618	11,251
Other payables	Shenzhen Zhongxing Xinyu FPC Company Limited	**31**	31
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Zhongxing Energy (Hubei) Company Limited	**53**	53
	Zhongxing Development Company Limited**	**215**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**1,363**	2,363
	深圳市中興昆騰有限公司	**201**	—
		1,923	2,722
Dividend payable	深圳市和康投資管理有限公司	**6,750**	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**—**	1,149
		6,750	1,149

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

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(1) *Customer deposits*

	2012	2011
Wuxi Kaier Technology Company Limited	324	—
南京中興和泰酒店管理有限公司	2,269	—
上海市和而泰酒店投資管理有限公司	10,608	—
西安中興和泰酒店管理有限公司	1,849	—
	15,050	—

(2) *Interest expenses*

	2012	2011
Wuxi Kaier Technology Company Limited	17	—
Shenzhen Decang Technology Company Limited ***	27	—
南京中興和泰酒店管理有限公司	18	—
上海市和而泰酒店投資管理有限公司	102	—
西安中興和泰酒店管理有限公司	2	—
	166	—

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

	2012	2011
Wuxi Kaier Technology Company Limited	48,900	—

(4) *Release of loans and advances — discounted bills*

	2012	2011
Wuxi Kaier Technology Company Limited	75,928	34,528
深圳市盛隆豐實業有限公司	3,789	962
Shenzhen Weigao Semiconductor Company Limited	996	36,486
	80,713	71,976

Out of the aforesaid discounted bills, bills with a balance of approximately RMB47,872,000 were issued by companies outside the Group. Such balance was set out under Other Receivables. Bills with a balance of approximately RMB31,845,000 were issued by companies within the Group, and the relevant assets and liabilities were set-off on consolidation.

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VI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(5) Interest income derived from loans and discounted bills

	2012	2011
Wuxi Kaier Technology Company Limited	**7,616**	505
Shenzhen Weigao Semiconductor Company Limited***	**135**	14
Shenzhen Decang Technology Company Limited***	**1,920**	—
Shenzhen Fudekang Electronics Company Limited***	**34**	—
深圳市盛隆豐實業有限公司	**127**	25
	9,832	544

(6) Interest receivable

	2012	2011
Wuxi Kaier Technology Company Limited	**96**	—

(7) Interest payable

	2012	2011
南京中興和泰酒店管理有限公司	**1**	—
上海市和而泰酒店投資管理有限公司	**4**	—
	5	—

VII. SHARE-BASED PAYMENT

1. Overview

	2012	2011
Total amount of employee service in consideration for which share based payments were made	**1,106,794**	1,106,794

Equity-settled share-based payments are as follows:

	2012	2011
Accumulated amount of equity-settled share-based payments in capital reserves	**—**	12,502
Total costs of equity-settled share-based payments in the year	**6,722**	41,821

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission. The Company granted 47,980,000 Subject Shares to the Scheme Participants by way of the issue of new shares (A shares), including the grant to 3,435 Scheme Participants of Subject Share quotas with 43,182,000 shares (accounting for 90% of the Subject Share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 Subject Shares accounting for 10% of the Subject Share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved Subject Share quotas to 794 Scheme Participants (hereinafter referred to as the "Second Award") was considered and approved. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted, out of which the subscription amounts for 3.8 Subject Shares shall be funded by Scheme Participants at their own cost and the subscription amounts for 1.4 Subject Shares shall be funded by the conversion of the deferred bonus that Scheme Participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme Participants shall pay the subscription amounts for the Subject Shares on the basis of the purchase of 5.2 Subject Shares for every 10 Subject Shares granted.

The Share Incentive Scheme shall be valid for 5 years, comprising a lock-up period of 2 years and an unlocking period of 3 years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the Subject Shares granted to Scheme Participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

(2) The Unlocking Period shall last for three years following expiry of the Lock-up Period, during which Scheme Participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of Subject Shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of Subject Shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding Subject Shares.

The unlocking of Subject Shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The Scheme Participant has not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of ZTE for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the Subject Shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, Subject Shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

The fair value of the Subject Shares was arrived at based on the market price of the Company' s shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the Subject Shares amounting to RMB1,106,794,000 is charged to profit and loss and the capital reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB6,722,000 (2011: RMB 41,821,000) at Share Incentive Scheme expenses for the year and an aggregate amount of RMB1,106,794,000 (2011: RMB1,100,071,000) has been recognised in expenses as at the end of the year on an accumulative basis.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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VII. SHARE-BASED PAYMENT (continued)

2. Share incentive scheme (continued)

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 5 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the Subject Share quotas of the Share Incentive Scheme for the current period was adjusted to 87,323,600 shares accordingly, representing the adjustments of the Subject Share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain Scheme Participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total Subject Share quota of 85,050,238 shares had been granted to 4,022 Scheme Participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 Subject Shares which have lapsed.

In accordance with the Share Incentive Scheme, Subject Shares under the First Award shall be subject to a lock-up period of two years commencing on 13 March 2007 (the date on which the Share Incentive Scheme was approved by the shareholders in a general meeting of the Company). As at 12 March 2009, the lock-up period for Subject Shares under the First Award had expired and the unlocking conditions had been fulfilled. As at 25 November 2010, the lock-up period of Subject Shares under the Second Award had expired and conditions for the unlocking of such share had been fulfilled. As at 31 December 2012, the Subject Shares under the Phase I Share Incentive Scheme of the Company which had fulfilled conditions precedent to the unlocking was completely unlocked. For details of the unlocking of Subject Shares, please refer to Note V.36.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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VIII. CONTINGENT EVENTS

1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB49,975,000). 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 RMB21,487,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the litigation is likely to continue for a considerable amount of time. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement. Based on the legal opinion furnished by lawyers engaged by the Company and the progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan District People's court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth had appealed to the Nanshan District People's Court against the said judgement. As of now, court hearing for the second trial has been completed and the court has ordered trial of the case to be suspended pending the final judgement of the case of China Construction Fifth Division at the Intermediate Court.

   In July 2009, China Construction Fifth instituted a separate litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The Shenzhen Intermediate People's Court issued its first-trial judgement in November 2012 which ruled contract amounts of approximately 14,497,000 together with interests accrued thereon and losses incurred as a a result of work suspension amounting to approximately RMB953,000 to be paid by the Company to China Construction Fifth; while RMB20,150,000 withheld by China Construction Fifth together with interests accrued thereon shall be refunded by China Construction Fifth to the Company. Other claims of China Construction Fifth were rejected. China Construction Fifth has filed an appeal with the Guangdong Provincial People's High Court in respect of the said judgement.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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VIII. CONTINGENT EVENTS (continued)

2. (continued)

   In October and November 2009, the Group further instituted two complaints with the Nanshan District People's Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. As of now the two trials have suspended. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

3. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

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

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

4. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by lawyers engaged by the Company and the current progress of the case, the Directors of the Company are of the opinion that the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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VIII. CONTINGENT EVENTS (continued)

5. On 9 December 2011, the Company and ZTE USA, its wholly-owned subsidiary, received a petition for arbitration filed by four USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that Company and ZTE USA had committed acts of breach of contract and fraud and demanded contract cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court.

   On 12 October 2012, the Company and ZTE USA defended themselves and made counter-claims at the ICDR, alleging default, fraud, abuse of litigation rights and grave infringement on the Company's interests on the part of CLEARTALK. Upon the recommendation of the mediator, the two parties agreed to reschedule the arbitration date to 1 April 2013, while the place of arbitration will remain Jacksonville of Florida. As the arbitration procedures of the United States do not provide for any limit on the amount compensation demanded by an applicant, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

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

6. On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (approximately RMB224 million).

   On 20 January 2012, ZTE Brazil submitted an administrative defense to the primary administrative court of the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the primary administrative court of the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. On 29 November 2012, the tax bureau of Sao Paulo State issued a notice which stated that it was of the view that ZTE Brazil had paid or satisfied in remedy the payment of the ICMS tax and therefore recommended the suspension of the administrative penalty notice. The case is pending judgement of the secondary administrative court of the tax bureau of Sao Paulo State.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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VIII. CONTINGENT EVENTS (continued)

6. (continued)

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

7 In November 2012, ZTE Brazil filed an application with the civil court of Brasilia to freeze the assets of a Brazilian company who failed to repay a loan of approximately BRL31,353,700 (approximately RMB93,951,400). 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 RMB249 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 lawyers engaged by the Company and the existing judgments and current progress of the case, the Directors of the Company are of the opinion that the aforesaid arbitration will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

8. On 29 July 2011 and 2 January 2013, 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 3G patent rights. Defendants in this 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 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. For the case filed in 2011, the litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

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

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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VIII. CONTINGENT EVENTS (continued)

9. In May 2012, a U.S. company filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

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

10. In July 2012, a U.S. company filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. As of now, there has been no substantial progress of the case.

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

11. As at 31 December 2012, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,814,811,000.

12. As at 31 December 2012, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB65,179,000 (31 December 2011: RMB65,213,000). The aforesaid guarantee will expire in December 2013 and September 2018.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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IX. COMMITMENTS

	2012	2011
Capital commitments		
Contracted but not provided for	**484,417**	836,989
Authorised by the Board but not yet contracted	**21,600,404**	21,752,024
	22,084,821	22,589,013
Investment commitments		
Contracted but performance not completed	**41,712**	945

X. EVENTS AFTER THE REPORTING PERIOD

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

XI. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012	2011
Within one year (including first year)	**432,442**	359,270
In the first to second years (including second year)	**332,859**	288,443
In the second to third years (including third year)	**300,111**	288,443
After the third year	**358,590**	586,942
	1,424,002	1,523,098

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XI. OTHER SIGNIFICANT MATTERS (continued)

2. Financial instruments convertible into shares and outstanding at the end of the period

The Company has no financial instruments convertible into shares and outstanding as at 31 December 2012.

3. Segment reporting

Operating segments

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

(1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(3) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance expenses, research and development costs, impairment losses, gain/(losses) from changes in fair values, investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds cum warrants, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at prevailing market prices.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2012

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	41,602,641	–	13,612,066	55,214,707
Sales of goods and services	–	25,838,804	3,165,847	29,004,651
Sub-total	41,602,641	25,838,804	16,777,913	84,219,358
Segment results	5,813,740	544,063	1,397,425	7,755,228
Unallocated revenue				3,081,253
Unallocated cost				(10,429,244)
Finance costs				(2,331,164)
Loss from changes in fair values				(107,396)
Investment income from associates and joint ventures				48,123
Total loss				(1,983,200)
Income tax				(621,421)
Net loss				(2,604,621)
Total assets				
Segment assets	35,099,356	11,594,963	14,155,206	60,849,525
Unallocated assets				46,596,781
Sub-total				107,446,306
Total liabilities				
Segment liabilities	9,834,371	953,128	3,966,100	14,753,599
Unallocated liabilities				70,053,977
Sub-total				84,807,576
Supplemental information				
Depreciation and amortization expenses	765,139	475,217	308,574	1,548,930
Capital expenditure	1,366,329	848,607	551,026	2,765,962
Asset impairment losses	230,713	143,293	93,044	467,050

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Operating segments (continued)

2011

	Network (communication systems)	Terminal products	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	46,522,048	–	9,129,909	55,651,957
Sales of goods and services	–	26,933,508	3,668,991	30,602,499
Sub-total	46,522,048	26,933,508	12,798,900	86,254,456
Segment results	11,519,506	212,726	1,948,736	13,680,968
Unallocated revenue				2,368,710
Unallocated cost				(11,040,853)
Finance costs				(2,356,319)
Loss from changes in fair values				(88,675)
Investment income from associates and joint ventures				71,305
Total profit				2,635,136
Income tax				(392,043)
Net profit				2,243,093
Total assets				
Segment assets	40,918,534	13,141,415	11,257,292	65,317,241
Unallocated assets				40,050,873
Sub-total				105,368,114
Total liabilities				
Segment liabilities	9,964,112	767,660	2,741,274	13,473,046
Unallocated liabilities				65,606,293
Sub-total				79,079,339
Supplemental information				
Depreciation and amortization expenses	768,137	444,706	211,325	1,424,168
Capital expenditure	2,072,898	1,200,085	570,284	3,843,267
Asset impairment losses	510,603	295,609	140,475	946,687

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. OTHER SIGNIFICANT MATTERS (continued)

3. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2012	2011
The PRC	**39,556,077**	39,496,611
Asia (excluding the PRC)	**16,062,667**	15,633,325
Africa	**7,820,599**	10,677,523
Europe, America and Oceania	**20,780,015**	20,446,997
	84,219,358	86,254,456

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2012	2011
The PRC	**11,014,888**	9,530,030
Asia (excluding the PRC)	**1,084,075**	1,003,877
Africa	**343,192**	393,940
Europe, America and Oceania	**789,003**	838,736
	13,231,158	11,766,583

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments financial assets and deferred tax assets) are located.

Information of major customers

Operating revenue of RMB20,057,277,000 was derived from telecommunications systems contracts and terminal revenue from tow major customers (2011: RMB9,376,443,000 derived from one major customer).

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis

The main financial instruments of the Group, except for derivatives, include bank loans, cash, etc. The main purpose of these financial instruments is to finance for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts with the aim of managing the foreign exchange risk and interest rate risk in the Group's operation.

The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk.

Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

2012

Financial assets

	Financial assets dealt with at fair value through current profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash	–	24,126,423	–	24,126,423
Trading financial assets	106,297	–	–	106,297
Available-for-sale financial assets	–	–	1,092,335	1,092,335
Bills receivable	–	4,282,220	–	4,282,220
Trade receivables and long-term receivables	–	23,274,818	–	23,274,818
Factored trade receivables and factored long-term receivables	–	8,183,998	–	8,183,998
Other receivables excluding dividends receivable	–	2,018,941	–	2,018,941
Other non-current assets	–	3,386,821	–	3,386,821
	106,297	65,273,221	1,092,335	66,471,853

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2012 (continued)

Financial liabilities

	Financial liabilities dealt with at fair value through current profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Trading financial liabilities	99,630	—	6,109	105,739
Bank loans	—	19,419,883	—	19,419,883
Bills payables	—	11,478,102	—	11,478,102
Trade payables	—	18,115,877	—	18,115,877
Bank advances on factored trade receivables and long-term trade receivables	—	8,187,416	—	8,187,416
Other payables (excluding accruals)	—	7,588,089	—	7,588,089
Bonds payable	—	10,126,127	—	10,126,127
Other non-current liabilities (non-current portion of hedging instruments)	—	345,408	10,747	356,155
	99,630	75,260,902	16,856	75,377,388

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

2011

Financial assets

	Financial assets dealt with at fair value through current profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	21,471,967	—	21,471,967
Trading financial assets	95,618	—	—	95,618
Available-for-sale financial assets	—	—	819,972	819,972
Bills receivable	—	3,223,529	—	3,223,529
Trade receivables and long-term receivables	—	24,737,699	—	24,737,699
Factored trade receivables and factored long-term receivables	—	7,779,179	—	7,779,179
Other receivables excluding dividends receivable	—	2,117,200	—	2,117,200
Other non-current assets	—	949,666	—	949,666
	95,618	60,279,240	819,972	61,194,830

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Classification of financial instruments (continued)

Financial liabilities

	Financial liabilities dealt with at fair value through current profit or loss	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Trading financial liabilities	2,433	—	2,872	5,305
Bank loans	—	18,817,150	—	18,817,150
Bills payables	—	11,149,367	—	11,149,367
Trade payables	—	21,542,885	—	21,542,885
Bank advances on factored trade receivables and long-term trade receivables	—	7,945,814	—	7,945,814
Other payables (excluding accruals)	—	6,779,229	—	6,779,229
Bonds cum Warrants	—	3,884,198	—	3,884,198
Other non-current liabilities (non-current portion of hedging instruments)	—	380,748	1,248	381,996
	2,433	70,499,391	4,120	70,505,944

Credit risk

Credit risk is the risk of financial losses arising from default of the counterparty.

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash, available- for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five accounts accounted for 31.84% of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Credit risk (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group did not hold any collateral or other credit enhancements over the balances of the trade receivables.

For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V. 4, 5 and 10.

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analysed as follows:

2012

			Overdue for			
	Total	**Not overdue/ not impaired**	**Less than 1 year**	**1–2 years**	**2–3 years**	**Over 3 years**
Trade receivables	**22,068,176**	**5,086,352**	**15,866,654**	**1,007,924**	**107,246**	**—**
Long-term receivables	**1,206,642**	**1,206,642**	**—**	**—**	**—**	**—**
Other receivables	**2,019,341**	**—**	**1,850,113**	**101,510**	**51,854**	**15,864**

2011

			Overdue for			
	Total	Not overdue/not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	23,873,425	5,746,119	16,853,412	1,174,085	99,809	—
Long-term receivables	864,274	864,274	—	—	—	—
Other receivables	2,118,700	—	1,905,644	149,446	42,860	20,750

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk

Liquidity risk refers to the risk of the lack of funds in performing obligations relating to financial liabilities.

The group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds payable and other interest-bearing loans. With the exception of the non-current portion of bank loans, all borrowings are repayable within one year.

The maturity profile of financial assets and financial liabilities based on undiscounted contractual cash flow is summarised as follows:

2012

Financial assets

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	indefinite	Total
Trading financial assets	44,919	61,378	–	–	–	–	106,297
Cash	22,659,635	1,466,788	–	–	–	–	24,126,423
Available-for-sale financial assets	–	–	–	–	–	1,092,335	1,092,335
Bills receivable	–	4,282,220	–	–	–	–	4,282,220
Trade receivables and long-term receivable	16,981,824	5,086,352	778,880	63,174	626,592	–	23,536,822
Factored trade receivables and factored long-term receivables	–	4,165,514	1,632,525	1,022,788	1,843,500	–	8,664,327
Other receivables (excluding dividends receivable)	2,018,941	–	–	–	–	–	2,018,941
Other non-current assets	–	–	713,701	536,870	2,171,336	–	3,421,907
	41,705,319	15,062,252	3,125,106	1,622,832	4,641,428	1,092,335	67,249,272

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2012 (continued)

Financial liabilities

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	18,684,521	13,290	919,466	193,458	19,810,735
Derivative financial liabilities	—	105,739	—	—	—	105,739
Bills payable	—	11,478,102	—	—	—	11,478,102
Trade payables	18,115,877	—	—	—	—	18,115,877
Bank advances on factored trade receivables and long-term trade receivables	—	4,211,344	1,594,306	966,975	1,754,183	8,526,808
Other payables (excluding accruals)	7,483,733	104,356	—	—	—	7,588,089
Bonds payable	—	4,270,134	252,000	6,252,000	—	10,774,134
Other non-current liabilities	68,868	—	95,095	79,814	261,760	505,537
	25,668,478	38,854,196	1,954,691	8,218,255	2,209,401	76,905,021

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2011

Financial assets

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	indefinite	Total
Trading financial assets	87,180	8,438	—	—	—	—	95,618
Cash	20,662,089	809,878	—	—	—	—	21,471,967
Available-for-sale financial assets	—	—	—	—	—	819,972	819,972
Bills receivable	—	3,223,529	—	—	—	—	3,223,529
Trade receivables and long-term receivable	18,127,306	5,746,119	592,475	104,028	261,772	—	24,831,700
Factored trade receivables and factored long-term receivables	—	3,623,096	1,928,864	763,847	1,463,372	—	7,779,179
Other receivables (excluding dividends receivable)	2,117,200	—	—	—	—	—	2,117,200
Other non-current assets	—	—	195,307	131,210	623,149	—	949,666
	40,993,775	13,411,060	2,716,646	999,085	2,348,293	819,972	61,288,831

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Liquidity risk (continued)

2011 (continued)

Financial liabilities

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	12,091,433	532,455	3,655,890	3,356,192	19,635,970
Derivative financial liabilities	—	5,298	—	—	—	5,298
Bills payable	—	11,149,367	—	—	—	11,149,367
Trade payables	21,542,885	—	—	—	—	21,542,885
Bank advances on factored trade receivables and long-term trade receivables	—	3,789,731	2,161,907	898,008	1,806,161	8,655,807
Other payables (excluding accruals)	6,677,470	101,759	—	—	—	6,779,229
Bonds cum warrants	—	32,000	4,032,000	—	—	4,064,000
Other non-current liabilities	68,902	—	96,003	82,535	299,956	547,396
	28,289,257	27,169,588	6,822,365	4,636,433	5,462,309	72,379,952

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012.

The Group monitors capital using a gearing ratio, which is interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities. The gearing ratios as at the ends of the reporting periods were as follows:

	2012	2011
	RMB'000	RMB'000
Interest-bearing bank borrowings	**19,419,883**	18,817,150
Interest-bearing bonds	**10,126,127**	3,884,198
Bank advances on factored trade receivables and long-term trade receivables	**8,187,416**	7,945,814
Total interest-bearing liabilities	**37,733,426**	30,647,162
Total equity	**22,638,730**	26,288,775
Total equity and interest-bearing liabilities	**60,372,156**	56,935,937
Gearing ratio	**62.5%**	53.8%

Market risk

Market risk refers to the risk of changes in the fair value or future cash flow of financial instruments. Market risks include mainly interest rate risks and exchange rate risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Group's risk exposure to movements in market interest rates is mainly related to the Group's long-term liabilities bearing interest at floating rates.

On 31 December 2012, 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.

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Market risk (continued)

Interest rate risk (continued)

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.3% and 12.75%. 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 31 December 2012, taking into account interest rate swaps for a nominal principal amount of USD100 million (2011: USD100 million) already executed, approximately 32% (2011: 26%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit	Increase/ (decrease) in shareholders' equity*
2012	**0.25%**	**(31,593)**	**5,764**
	(0.25%)	**31,593**	**(5,764)**
2011	0.25%	(34,740)	7,031
	(0.25%)	34,740	(7,031)

* excluding retained earnings.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk of volatility in the fair value of financial instruments or future cash flow resulting from changes in foreign currency exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit, with all other variables held constant, as at the balance sheet date.

	Increase/(decrease) in US dollars exchange rate	Impact on net profit
2012		
Weaker RMB against USD	**3%**	**31,570**
Stronger RMB against USD	**(3%)**	**(31,570)**
2011		
Weaker RMB against USD	3%	(37,165)
Stronger RMB against USD	(3%)	37,165

	Increase/(decrease) in EUR exchange Rate	Impact on total profit
2012		
Weaker RMB against EUR	**5%**	**155,594**
Stronger RMB against EUR	**(5%)**	**(155,594)**
2011		
Weaker RMB against EUR	5%	210,820
Stronger RMB against EUR	(5%)	(210,820)

Notes to Financial Statements (continued)

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Fair value

The fair values of the financial instruments of the Group did not differ significantly from their book values.

Fair value refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of cash, bills receivable, trade receivables, bills payable and trade payables approximate their carrying values given relatively short outstanding periods.

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics.

The fair values of listed financial instruments are determined on the basis of market value.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 31 December 2012, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The Group's measurement of fair value is distinguished into the following levels:

The first level is the measurement of fair value as prices of identical assets or liabilities quoted in an active market on the date of measurement, where such prices are available; the second level is the measurement of fair value as prices of similar assets or liabilities quoted in an active market or prices of identical or similar assets or liabilities quoted in an inactive market on the date of measurement, after necessary adjustment, where such prices are available; the third level is the measurement of fair value on the basis of other parameters that reflect market participants' valuation of the assets or liabilities concerned, if no comparable traded market prices for identical or similar assets are available.

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XI. OTHER SIGNIFICANT MATTERS (continued)

4. Financial instruments and risk analysis (continued)

Fair value (continued)

Financial instruments measured at fair value:

2012

	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets	**38,420**	**—**	**—**	**38,420**
Trading financial assets	**44,919**	**61,378**	**—**	**106,297**
Trading financial liabilities	**—**	**(116,486)**	**—**	**(116,486)**

2011

	Level 1	Level 2	Level 3	Total
Trading financial assets	87,180	8,438	—	95,618
Trading financial liabilities	—	(6,553)	—	(6,553)

XII. COMPARATIVE DATA

Certain comparative data have been restated to conform with the presentation requirements for the current year.

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

		2012			2011	
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
RMB	**13,494,688**	**1.0000**	**13,494,688**	13,028,980	1.0000	13,028,980
USD	**2,603,285**	**6.2855**	**16,362,945**	2,405,289	6.3009	15,155,485
EUR	**436,480**	**8.3176**	**3,630,467**	474,344	8.1625	3,871,833
Other			**1,481,956**			1,079,726
			34,970,056			33,136,024

Notes to Financial Statements (continued)

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

Aging analysis of trade receivables:

	2012	2011
Within 1 year	27,903,156	26,336,644
1–2 years	4,005,785	3,650,163
2–3 years	1,436,695	1,806,894
Over 3 years	3,658,604	3,370,060
	37,004,240	35,163,761
Less: Bad debt provision for trade receivables	2,034,184	2,027,737
	34,970,056	33,136,024

	2012				2011			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant for which separate bad debt provision is made	493,355	1	493,355	100	531,664	2	531,664	100
For which collective bad debt provision is made								
0–6 months	25,706,014	69	–	–	21,905,651	62	–	–
7–12 months	2,145,615	6	109,689	5	4,397,928	13	105,230	2
13–18 months	1,710,459	5	163,492	10	2,262,376	6	269,427	12
19–24 months	2,262,339	6	150,959	7	1,344,243	4	148,503	11
2–3 years	1,393,169	4	383,394	28	1,740,232	5	458,397	26
Over 3 years	3,293,289	9	733,295	22	2,981,667	8	514,516	17
	36,510,885	99	1,540,829	4	34,632,097	98	1,496,073	4
	37,004,240	100	2,034,184	5	35,163,761	100	2,027,737	6

Movements in bad-debt provisions for trade receivables:

			Decrease during the year		
	Opening balance	Provision for the year	Write-back	Write-off	Closing balance
2012	2,027,737	37,656	(24,644)	(6,565)	2,034,184
2011	1,652,436	388,701	—	(13,400)	2,027,737

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

There was no write-back or recovery of individually significant trade receivables, for which bad debt provision had been individually made, in 2012 (2011: Nil).

Top 5 accounts of trade receivables as at 31 December 2012 were as follows:

Customer	Amount	As a percentage of the total amount of trade receivables
Customer 1	5,047,855	13.64%
Customer 2	3,184,500	8.61%
Customer 3	2,080,124	5.62%
Customer 4	1,814,363	4.90%
Customer 5	1,772,403	4.79%
Total	13,899,245	37.56%

As at 31 December 2012, trade receivables amounting to RMB101,437,000 were due from shareholders holding 5% or more in the voting shares (31 December 2011: RMB102,479,000).

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 RMB3,545,295,000 (31 December 2011: RMB3,306,558,000). Bank advances on factored trade receivables amounts to RMB3,548,713,000 (31 December 2011: RMB3,473,193,000)

2. Other receivables

The aging analysis of other receivables:

	2012	2011
Within 1 year	**3,286,587**	3,181,643
1 to 2 years	**968,400**	63,203
2 to 3 years	**63,202**	115,459
Over 3 years	**232,859**	117,401
	4,551,048	3,477,706
Less: Bad debt provision for other receivables	**—**	—
	4,551,048	3,477,706

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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

Top 5 accounts of other receivables as at 31 December 2012 were as follows:

Customer	Amount	As a percentage of the total amount of other receivables
Customer 1	957,877	21.05%
Customer 2	607,325	13.34%
Customer 3	432,942	9.51%
Customer 4	285,271	6.27%
Customer 5	284,331	6.25%
Total	2,567,746	56.42%

As at 31 December 2012, there was no outstanding amount due from shareholders holding 5% or more in the voting shares (31 December 2011: Nil).

3. Available-for-sale financial assets

	2012	2011
Available-for-sale equity instruments	**323,655**	212,448

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term receivables

	2012	2011
Loans granted to subsidiaries (Note 1)	**2,484,940**	2,863,839
Installment payments for the provision of telecommunication system construction projects	**1,251,208**	821,686
Less: Bad debt provision for long-term receivables	**51,647**	51,774
	3,684,501	3,633,751

Note 1 Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments ini overseas business operations.

Movements in bad debt provision for long-term receivables during the year are as follows:

			Decrease during the year		
	Opening balance	Provision for the year	Write-back	Write-off	Closing balance
2012	**51,774**	**—**	**(127)**	**—**	**51,647**
2011	57,529	—	(5,755)	—	51,774

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables" amounting to RMB3,582,669,000 (31 December 2011: RMB4,059,772,000).

5. Long-term equity investments

		2012	2011
Equity method			
Joint ventures	(1)	**44,559**	43,940
Associates	(2)	**349,193**	321,562
Cost method			
Subsidiaries	(3)	**6,191,055**	4,481,184
Less: Provision for impairment in long-term equity Investments	(4)	**92,315**	96,215
		6,492,492	4,750,471

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012

(1) *Joint ventures*

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
普興移動通訊設備有限公司	43,500	43,940	619	44,559	33.85%	50%	–

(2) *Associates*

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	–	836	836	30%	30%	–
Zhongxing Energy Company Limited	300,000	287,788	15,005	302,793	23.26%	23.26%	–
思卓中興（杭州）科技有限公司	22,845	19,859	(404)	19,455	49%	49%	–
上海中興群力資訊科技有限公司	2,000	11,438	714	12,152	40%	40%	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,400	–	5,548	5,548	18%	40%	–
北京億科三友科技發展有限公司	6,844	–	5,932	5,932	20%	20%	–
		321,562	27,631	349,193			–

Notes to Financial Statements (continued)

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

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	156,500	106,793	263,293	100%	100%	2,023,421
Shenzhen Changfei Investment Company Limited	–	15,300	(15,300)	–	–	–	–
Nanjing ZTEsoft Technology Company Limited	89,921	45,489	44,432	89,921	80.1%	80.1%	–
Shenzhen ZNV Technology Company Limited	244,827	6,000	238,827	244,827	90%	90%	104,148
Shenzhen Special Equipment Company Limited	–	541	(541)	–	–	–	17,000
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	5,100	32,282	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	129,891
ZTE Microelectronics Technology Company Limited	102,174	15,674	86,500	102,174	100%	100%	231,240
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	1,586
Wuxi Zhongxing Optoelectronics Technologies Company Limited	6,500	6,500	–	6,500	65%	65%	1,950
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	321,407	31,666	289,741	321,407	90%	90%	231,790
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	10,500	–	10,500	70%	70%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	4,000	9,110	13,110	90%	90%	1,800
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Yangzhou Zhongxing Mobile Telecom Company Limited	–	3,900	(3,900)	–	–	–	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxingxin Software Company Limited	600,000	600,000	–	600,000	100%	100%	250,000
Shenzhen Zhongxing ICT Company Limited	157,019	24,000	133,019	157,019	90%	90%	106,415
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	30,000	30,000	(30,000)	–	–	–	1,617
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
PT. ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
Telrise (Cayman) Telecom Limit	21,165	21,165	–	21,165	100%	100%	–
Wistron Telecom AB (Europe Research Institute)	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD	496	496	–	496	100%	100%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	5,395	184,738	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	304,068	31,691	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	–	6,582	100%	100%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–
Closed Joint Stock Company TK Mobile (Tajik)	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	449,362	404,438	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	6,600	9,900	16,500	55%	55%	8,250
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	300,000	300,000	–	300,000	30%	不適用	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	10,000	10,000	–	10,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	–	159,341	159,341	100%	100%	–
安徽中興通訊傳媒有限責任公司	300	–	300	300	100%	100%	–
深圳市中興高達技術有限公司	28,500	–	28,500	28,500	95%	95%	–
		4,481,184	1,709,871	6,191,055			3,109,108

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2012 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Limited	12,970	—	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	(3,900)	—
Shenzhen ZTE Mobile Telecom Co., Ltd	17,657	—	17,657
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S. DE R.L DE C.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	—	496
	96,215	(3,900)	92,315

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2011

(1) *Jointly-controlled entities*

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
普興移動通訊設備有限公司	43,500	–	43,940	43,940	33.85%	50%	–

(2) *Associates*

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Nationz Technologies Inc.	31,559	540,495	(540,495)	–	1.15%	1.15%	10,880
KAZNURTEL Limited Liability Company	3,988	2,477	–	2,477	49%	49%	–
ZTE Software Technology (Nanchang) Company Limited	4,500	–	–	–	30%	30%	–
Zhongxing Energy Company Limited	300,000	261,921	25,866	287,787	23.26%	23.26%	–
思卓中興(杭州)科技有限公司	22,845	2,314	17,545	19,859	49%	49%	–
上海中興群力資訊科技有限公司	2,000	1,967	9,472	11,439	40%	40%	–
		809,174	(487,612)	321,562			10,880

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2011 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
ZTE Kangxun Telecom Company Limited	580,000	45,000	535,000	580,000	90%	90%	535,000
ZTE (USA) Inc.	5,395	5,395	–	5,395	100%	100%	–
Wuxi Zhongxing Optoelectronics Technologies Company Limited	6,500	6,500	–	6,500	65%	65%	–
ZTE (H.K.) Limited	449,362	449,362	–	449,362	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	2,379
Telrise (Cayman) Telecom Ltd.	21,165	21,165	–	21,165	100%	100%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	99%	99%	–
Congo-Chine Telecom S.A.R.L	–	72,835	(72,835)	–	–	–	–
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	3,900	–	3,900	65%	65%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	31,666	31,666	–	31,666	80%	80%	–
Nanjing ZTEsoft Technology Company Limited	45,489	45,489	–	45,489	75%	75%	–
ZTE (UK) Ltd.	–	5,286	(5,286)	–	–	–	–
ZTE Do Brasil LTDA	18,573	18,573	–	18,573	100%	100%	–
Shenzhen Zhongxing Software Company Limited	156,500	36,500	120,000	156,500	74%	74%	3,018,441
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	6,582	–	6,582	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100%	100%	–

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2011 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzheng Changfei Investment Company Limited	15,300	15,300	–	15,300	51%	51%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–
Guangdong New Pivot Technology & Service Company Limited	4,000	4,500	(500)	4,000	80%	80%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	99%	99%	450,000
Shanghai Zhongxing Telecom Equipment Technology Company Limited	5,100	5,100	–	5,100	51%	51%	3,825
ZTE Holdings (Thailand) Co., Ltd.	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
Shenzhen Special Equipment Company Limited	540	540	–	540	54%	54%	4,644
ZTE Telecom India Private Ltd.	304,068	258,361	45,707	304,068	100%	100%	–
ZTE Romania S.R.L.	827	827	–	827	100%	100%	–
ZTE (Malaysia) Corporation SDN.BHD.	496	496	–	496	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	10,500	10,500	–	10,500	70%	70%	3,030
Closed Joint Stock Company TK Mobile	16,871	16,871	–	16,871	51%	51%	–
PT.ZTE Indonesia	15,276	15,276	–	15,276	100%	100%	–
Shenzhen ZNV Technology Company Limited	6,000	6,000	–	6,000	80%	80%	7,500
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Xi'an Zhongxingxin Software Company Limited	600,000	600,000	–	600,000	100%	100%	300,000
中興國通通訊裝備技術(北京)有限公司	15,200	2,000	13,200	15,200	76%	76%	–
Shenzhen Zhongxing ICT Company Limited	24,000	24,000	–	24,000	80%	80%	24,000
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	30,000	30,000	–	30,000	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	6,600	6,600	–	6,600	55%	55%	–
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	15,674	15,674	–	15,674	90%	90%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	300,000	300,000	–	300,000	30%	不適用	–
ZTE Group Finance Co., Ltd	1,000,000	–	1,000,000	1,000,000	100%	100%	–
深圳市百維技術有限公司	10,000	–	10,000	10,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	–	28,500	28,500	95%	95%	–
		2,807,398	1,673,786	4,481,184			4,348,819

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2011 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Ltd.	12,970	—	12,970
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Yangzhou Zhongxing Mobile Telecom Company Limited	3,900	—	3,900
Shenzhen ZTE Mobile Telecom Co., Ltd	17,657	—	17,657
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
ZTE WistronTelecom AB	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE TelecomIndia Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L.	827	—	827
ZTE (Malaysia) Corporation SDN. BHD.	496	—	496
ZTE (UK) Ltd.	4,533	(4,533)	—
	100,748	(4,533)	96,215

Notes to Financial Statements (continued)

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

XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

6. Operating revenue and costs

Operating revenue is analysed as follows:

	2012	2011
Revenue	**65,124,944**	71,640,021
Other income	**8,907,373**	3,704,281
	74,032,317	75,344,302

Operating cost is analysed as follows:

	2012	2011
Costs of sales	**67,604,470**	66,192,140
Other operating expenses	**684**	10,167
	67,605,154	66,202,307

Details of operating revenue generated from top 5 customers in 2012 was as follows:

Name of customer	**Amount**	**As a percentage of total operating revenue**
Customer 1	9,554,871	12.91%
Customer 2	9,238,811	12.48%
Customer 3	7,358,220	9.94%
Customer 4	5,806,446	7.83%
Customer 5	3,372,345	4.56%
	35,330,693	47.72%

Sales to the top five customers of the Group generated revenue of RMB35,330,693,000 in 2012 (2011: RMB28,733,062,000), accounting for 47.72% (2011: 38.14%) of the sales revenue of the Group.

Notes to Financial Statements (continued)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XIII. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

7. Investment income

	2012	2011
Investment income from long-term equity investment under equity method	16,007	42,247
Investment income from long-term equity investment under cost method	3,120,921	4,359,520
Investment income/(loss) from the disposal of trading financial instruments	(11,340)	155,834
Investment income from Nationz Technologies	—	866,503
Investment income/(loss) from the disposal of subsidiaries	1,591,818	(183,074)
Investment income from the disposal of available-for-sale financial assets	—	5,931
Investment income from the disposal of certain equities of subsidiaries	—	1,334
	4,717,406	5,248,295

As at 31 December 2012, the Company was not subject to significant restrictions in remitting its investment income.

8. Supplemental information on the cash flow statement

Reconciliation of net profit/(loss) to cash flow from operating activities:

	2012	2011
Net profit/(loss)	(1,427,799)	503,793
Add: Impairment losses	(30,026)	564,900
Depreciation of fixed assets	692,437	570,525
Amortisation of intangible assets and development cost	191,688	189,602
Loss on disposal of fixed assets, intangible assets and other long term assets	9,326	11,842
Loss from changes in fair value	85,834	34,799
Finance expenses	1,377,493	901,487
Investment income	(4,717,406)	(5,248,295)
Decrease/(increase) in deferred tax assets	41,112	(175,203)
Increase/(decrease) in deferred tax liabilities	138,400	(66,048)
(Increase)/decrease in inventories	2,966,531	(3,315,150)
Increase in operating receivables	(5,769,483)	(8,917,597)
Increase in operating payables	8,997,331	16,931,563
Equity settled share expenses	6,722	41,821
(Increase)/decrease in cash subject to ownership restrictions	(2,643,036)	27,686
Net cash flows from operating activities	(80,876)	2,055,725

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Amount for 2012
Loss from the disposal of non-current assets	(19,446)
Investment gains from disposal of equity investment	1,190,786
Profit and loss of changes in fair value arising from trading financial assets and trading financial liabilities except for valid straddle business relevant to normal business of the company, as well as investment gain realized from disposal of trading financial assets and trading financial liabilities	(100,488)
Net amount of other non-operating income and expenses	516,760
Effect of income tax	238,142
	1,349,470

Note 1 The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Amount for 2012	Reason
Refund of VAT on software products	2,108,253	In line with national policies and received on an ongoing basis
Refund of individual tax	1,103	In line with national policies and received on an ongoing basis

2 RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs. Ernst & Young is the auditor for the Group and Company's financial statements prepared under HKFRSs.

3 RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2012

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(12.43%)	RMB(0.83)	RMB(0.83)
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(18.34%)	RMB(1.22)	RMB(1.22)

Supplementary Information to Financial Statements

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

3 RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE (continued)

2011

	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share Diluted
Net profit attributable to ordinary shareholders of the Company	8.74%	RMB0.61	RMB0.61
Net profit after extraordinary items attributable to ordinary shareholders of the Company	4.53%	RMB0.31	RMB0.31

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS

Balance sheet items	Analysis of reasons
Bills receivable	Mainly attributable to the increase in receipts in the form of acceptance bills
Prepayments	Mainly attributable to the increase in prepayments to suppliers under contracts for the purchase of materials
Available-for-sale financial assets	Mainly attributable to the increase in the Zhonghe Chunsheng Fund investment in available-for-sale financial assets
Long-term trade receivables	Mainly attributable to the offer of a payment method with a longer credit period after initial inspection to customers
Investment properties	Mainly attributable to the reclassification of certain buildings used by the Company as leased properties
Construction in progress	Mainly attributable to the reclassification of certain construction in progress as fixed assets and investment properties
Long-term deferred assets	Mainly attributable to the increase during the period in telecommunications equipment in respect of which profit-sharing agreements with carriers have been reached.
Other non-current assets	Mainly attributable to the increase in risk compensation funds to be released after one year
Short-term loans	Mainly attributable to the transfer of syndicate loans to short-term loans because of the Company's inability to meet required financial benchmarks. The syndicate loans will be reclassified as long-team loans after an exemption letter is obtained
Trading financial liabilities	Mainly attributable to losses arising from the fair-value revaluation of certain derivative investments at the end of the period
Deferred income	Mainly attributable to the increase in income-related government subsidies
Non-current liabilities due within one year	Mainly attributable to the transfer of bonds payable due within one year into this class

Supplementary Information to Financial Statements

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

4. ANALYSIS OF MOVEMENTS IN CERTAIN FINANCIAL STATEMENT ITEMS (continued)

Balance sheet items	**Analysis of reasons**
Long-term loans	Mainly attributable to the transfer of syndicate loans to short-term loans because of the company's inability to meet required financial benchmarks. The syndicate loans will be reclassified as long-team loans after an exemption letter is obtained
Bonds payable	Mainly attributable to the issue of bonds by the Company during the period
Deferred income tax liabilities	Mainly attributable to the provision of deferred income tax liabilities for the period in respect of the increase in value of investment properties upon revaluation
Restricted shares remaining in lock-up	Mainly attributable to the unlocking of certain Subject Shares under the Company's Phase I Share Incentive Scheme
Proposed final dividend	Mainly attributable to the payout during the period of final dividend proposed in the previous period
Minority interests	Mainly attributable to the Company's disposal of subsidiaries and acquisition of minority interests and the reduction in the shareholding percentage of minority shareholders
Income statement items	**Analysis of reasons**
Asset impairment losses	Mainly attributable to the reduction in inventory impairment provision for the period and the reduction in provisions for trade receivables and bad debts
Non-operating income	Mainly attributable to the increase in VAT rebates for software products
Non-operating expenses	Mainly attributable to decrease in compensation expenses for the period
Income tax expenses	Mainly attributable to the increase in profit reported by certain subsidiaries and the year-on-year decrease in deferred income tax assets formed by deductible losses for the current period
Other comprehensive income	Mainly attributable to the appreciation of investment properties upon valuation
Cash flow statement items	**Analysis of reasons**
Net cash flow from operating activities	Mainly attributable to the increase in cash received for the sales of goods and rendering of services and the decrease in expenses for the period
Net cash flow from investing activities	Mainly attributable to the increase in cash received from the disposal of subsidiaries and the decease in capital expenditure
Net cash flow from financing activities	Mainly attributable to the increase in cash paid for loan repayment
Effect of exchange rate movements on cash	Mainly attributable to the decrease in losses arising translation differences due to exchange rate volatility for the period

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of ZTE Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages 314 to 431, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' Report (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central

Hong Kong
27 March 2013

Consolidated Statement of Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**84,219,358**	86,254,456
Cost of sales		**(65,545,460)**	(62,086,367)
Gross profit		**18,673,898**	24,168,089
Other income and gains	5	**4,508,721**	3,664,374
Research and development costs		**(8,829,194)**	(8,492,623)
Selling and distribution expenses		**(11,340,927)**	(11,112,176)
Administrative expenses		**(2,449,201)**	(2,605,579)
Other expenses		**(706,139)**	(1,684,091)
Finance costs	7	**(1,888,481)**	(1,374,163)
Share of profits and losses of:			
Jointly-controlled entities		**619**	440
Associates		**47,504**	70,865
PROFIT/(LOSS) BEFORE TAX	6	**(1,983,200)**	2,635,136
Income tax expense	10	**(621,421)**	(392,043)
PROFIT/(LOSS) FOR THE YEAR		**(2,604,621)**	2,243,093
Attributable to:			
Owners of the parent	11	**(2,840,962)**	2,060,166
Non-controlling interests		**236,341**	182,927
		(2,604,621)	2,243,093
OTHER COMPREHENSIVE INCOME			
Cash flow hedges — effective portion of changes in fair value of hedging instruments arising during the year		**(12,736)**	(4,120)
Changes in fair value of available-for-sale investments		**30,792**	—
Revaluation gain upon transfer from owner-occupied properties to investment properties		**932,669**	—
Income tax effect	40	**(139,900)**	—
Exchange differences on translation of foreign operations		**(52,445)**	(346,067)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**758,380**	(350,187)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(1,846,241)**	1,892,906
Attributable to:			
Owners of the parent		**(2,103,307)**	1,697,115
Non-controlling interests		**257,066**	195,791
		(1,846,241)	1,892,906
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB(0.83)**	RMB0.61
Diluted		**RMB(0.83)**	RMB0.61

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**8,011,028**	8,646,027
Prepaid land lease payments	17	**889,351**	862,030
Intangible assets	18	**2,624,944**	2,239,648
Investment properties	16	**1,686,158**	—
Investments in jointly-controlled entities	21	**46,814**	46,195
Investments in associates	22	**408,954**	467,896
Available-for-sale investments	23	**1,092,335**	819,972
Long-term trade receivables	26	**1,206,642**	864,274
Factored long-term trade receivables	27	**4,018,484**	4,156,083
Deferred tax assets	40	**1,218,605**	1,128,836
Pledged deposits	31	**3,157,077**	949,666
Long-term prepayments, deposits and other receivables	19	**447,226**	691,240
Total non-current assets		**24,807,618**	20,871,867
CURRENT ASSETS			
Prepaid land lease payments	17	**19,677**	18,878
Inventories	24	**11,442,389**	14,988,379
Amount due from customers for contract works	25	**13,666,100**	14,588,455
Trade and bills receivables	26	**26,350,396**	27,096,954
Factored trade receivables	27	**4,165,514**	3,623,096
Prepayments, deposits and other receivables	28	**5,227,077**	5,028,840
Equity investment at fair value through profit or loss	29	**44,919**	87,180
Derivative financial instruments	30	**61,378**	8,438
Pledged deposits	31	**1,380,180**	724,878
Time deposits with original maturity of over three months	31	**86,608**	85,000
Cash and cash equivalents	31	**22,659,635**	20,662,089
Total current assets		**85,103,873**	86,912,187
CURRENT LIABILITIES			
Trade and bills payables	32	**29,593,979**	32,692,252
Amount due to customers for contract works	25	**3,459,545**	3,068,804
Other payables and accruals	33	**14,833,771**	13,407,890
Derivative financial instruments	30	**105,739**	5,305
Interest-bearing bank borrowings	34	**18,429,893**	11,876,448
Bank advances on factored trade receivables	27	**4,168,932**	3,789,731
Bonds cum warrants	35	**4,018,134**	—
Tax payable		**608,336**	880,275
Dividends payable		**205,783**	170,046
Total current liabilities		**75,424,112**	65,890,751
NET CURRENT ASSETS		**9,679,761**	21,021,436
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,487,379**	41,893,303

continued/...

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,487,379**	41,893,303
NON-CURRENT LIABILITIES			
Derivative financial instruments	30	**10,747**	1,248
Bonds payable	36	**6,107,993**	3,884,198
Interest-bearing bank borrowings	34	**989,990**	6,940,702
Bank advances on factored long-term trade receivables	27	**4,018,484**	4,156,083
Financial guarantee contract	48	**3,689**	3,689
Deferred tax liabilities	40	**139,900**	—
Provision for retirement benefits	37	**54,041**	48,716
Other long-term payables	38	**523,805**	569,892
Total non-current liabilities		**11,848,649**	15,604,528
Net assets		**22,638,730**	26,288,775
EQUITY			
Equity attributable to owners of the parent			
Issued capital	41	**3,440,078**	3,440,078
Shares subject to lock-up under the Share Incentive Scheme	44	**—**	(40,537)
Reserves	43	**18,062,396**	20,145,986
Proposed final dividend	12	**—**	686,190
		21,502,474	24,231,717
Non-controlling interests		**1,136,256**	2,057,058
Total equity		**22,638,730**	26,288,775

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2012

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Shares subject to lock-up under the Share Incentive Scheme RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011		2,866,732	8,608,755	–	462,220	(276,266)	1,537,512	(168,765)	9,222,387	841,297	23,093,872	1,868,126	24,961,998
Profit for the year		–	–	–	–	–	–	–	2,060,166	–	2,060,166	182,927	2,243,093
Other comprehensive income for the year:													
Cash flow hedges, net of tax		–	–	(4,120)	–	–	–	–	–	–	(4,120)	–	(4,120)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(358,931)	–	–	(358,931)	12,864	(346,067)
Total comprehensive income for the year		–	–	(4,120)	–	–	–	(358,931)	2,060,166	–	1,697,115	195,791	1,892,906
Disposal of a subsidiary		–	–	–	–	–	–	–	–	–	–	95,703	95,703
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(111,273)	(111,273)
Capital contributions by non-controlling shareholders		–	4,477	–	–	–	–	–	–	–	4,477	8,711	13,188
Final 2010 dividend declared		–	–	–	–	–	–	–	–	(841,297)	(841,297)	–	(841,297)
Share Incentive Scheme:	42												
– Equity-settled share expense		–	–	–	41,821	–	–	–	–	–	41,821	–	41,821
– Unlocking the lock-up shares		–	491,539	–	(491,539)	235,729	–	–	–	–	235,729	–	235,729
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(686,190)	686,190	–	–	–
Transfer from capital reserve	44	573,346	(573,346)	–	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	50,379	–	(50,379)	–	–	–	–
At 31 December 2011		3,440,078	8,531,425*	(4,120)*	12,502*	(40,537)	1,587,891*	(527,696)*	10,545,984*	686,190	24,231,717	2,057,058	26,288,775

continued/...

Consolidated Statement of Changes in Equity (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2012

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Shares subject to lock-up under the Share Incentive Scheme RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012		3,440,078	8,531,425	(4,120)	12,502	(40,537)	1,587,891	(527,696)	10,545,984	686,190	24,231,717	2,057,058	26,288,775
Loss for the year		–	–	–	–	–	–	–	(2,840,962)	–	(2,840,962)	236,341	(2,604,621)
Other comprehensive income for the year:													
Cash flow hedges, net of tax		–	–	(12,736)	–	–	–	–	–	–	(12,736)	–	(12,736)
Changes in fair value of available-for-sale investments		–	12,625	–	–	–	–	–	–	–	12,625	18,167	30,792
Revaluation gain upon transfer from owner occupied-properties to investment properties, net of tax		–	792,769	–	–	–	–	–	–	–	792,769	–	792,769
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(55,003)	–	–	(55,003)	2,558	(52,445)
Total comprehensive income/(loss) for the year		–	805,394	(12,736)	–	–	–	(55,003)	(2,840,962)	–	(2,103,307)	257,066	(1,846,241)
Disposal of a subsidiary	46	–	–	–	–	–	(461)	–	–	–	(461)	(384,860)	(385,321)
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(576,637)	(576,637)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(225,873)	(225,873)
Capital contributions by non-controlling shareholders		–	13,456	–	–	–	–	–	–	–	13,456	9,502	22,958
Final 2011 dividend declared		–	–	–	–	–	–	–	–	(686,190)	(686,190)	–	(686,190)
Share Incentive Scheme:	42												
– Equity-settled share expense		–	–	–	6,722	–	–	–	–	–	6,722	–	6,722
– Unlocking the lock-up shares		–	19,224	–	(19,224)	40,537	–	–	–	–	40,537	–	40,537
Proposed final 2012 dividend	12	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2012		3,440,078	9,369,499*	(16,856)*	–	–	1,587,430*	(582,699)*	7,705,022*	–	21,502,474	1,136,256	22,638,730

* These reserve accounts comprise the consolidated reserves of approximately RMB18,062,396,000 (2011: RMB20,145,986,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(1,983,200)**	2,635,136
Adjustments for:			
Finance costs	7	**1,888,481**	1,374,163
Share of profits and losses of jointly-controlled entities		**(619)**	(440)
Share of profits and losses of associates		**(47,504)**	(70,865)
Bank and other interest income	5	**(149,409)**	(283,618)
Dividend income	5	**(13,070)**	(11,061)
Loss on disposal of items of property, plant and equipment	6	**19,446**	30,629
(Gain)/loss on disposal of equity interests	6	**(1,258,081)**	18,801
Fair value losses of assumed liabilities in a previous disposal of a subsidiary	6	**67,295**	—
Gain on disposal of available-for-sale investments	6	**—**	(5,931)
Fair value loss on equity investments held for trading	6	**42,261**	10,815
Fair value loss on derivative instruments — transactions not qualifying as hedges	6	**49,456**	77,860
Gain on disposal of derivative financial instruments	5	**(6,908)**	(128,550)
Gain on investment in Nationz Technologies Inc.	5	**—**	(866,503)
Depreciation	15	**1,042,966**	1,026,399
Recognition of prepaid land lease payments	17	**17,233**	16,983
Amortisation of intangible assets	18	**488,730**	380,787
Write-down/(reversal of write-down) of inventories to net realisable value	6	**134,007**	370,150
Impairment of trade receivables	6	**330,484**	576,537
Impairment of property, plant and equipment	6	**2,559**	—
Equity-settled share option expense	6	**6,722**	41,821
Changes in fair value of investment properties	6	**15,679**	—
		646,528	5,193,113
Decrease/(increase) in inventories		**2,665,001**	(3,275,039)
Decrease/(increase) in the amount due from customers for contract works		**922,355**	(380,416)
Increase in trade and bills receivables		**(1,607,798)**	(8,827,680)
Increase in long-term trade receivables		**(342,241)**	(291,074)
(Increase)/decrease in factored trade receivables		**(476,029)**	210,108
Increase in prepayments, deposits and other receivables		**(249,960)**	(1,398,904)
(Decrease)/increase in trade and bills payables		**(1,240,955)**	7,622,875
Increase in the amount due to customers for contract works		**408,747**	296,135
Increase/(decrease) in other payables and accruals		**4,706,920**	(79,032)
Increase in other non-current assets		**(222,736)**	—
Increase in provision for retirement benefits		**5,325**	5,384
Cash generated from/(used in) operations		**5,215,157**	(924,530)

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Cash generated from/(used in) operations		**5,215,157**	(924,530)
Interest received		**157,359**	263,918
Interest and other finance costs paid		**(1,752,527)**	(1,115,655)
Hong Kong profits tax paid		**—**	(3,883)
PRC taxes paid		**(771,427)**	(783,074)
Overseas taxes paid		**(186,752)**	(173,297)
Dividends paid		**(686,190)**	(841,297)
Dividends paid to non-controlling shareholders		**(102,558)**	(77,529)
Net cash flows from/(used in) operating activities		**1,873,062**	(3,655,347)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(246,022)**	(124,583)
Purchases of items of property, plant and equipment		**(1,257,606)**	(2,548,487)
Purchase of intangible assets		**(874,026)**	(1,391,966)
Proceeds from disposal of items of property, plant and equipment		**41,845**	88,693
Proceeds from disposal of prepaid land lease payments		**—**	1,922
Acquisition of a jointly-controlled entity		**—**	(43,500)
Capital contribution in associates		**(97,792)**	(27,634)
Purchases of available-for-sale investments		**(336,843)**	(507,316)
Proceeds from disposal of investment in Nationz Technologies Inc.		**—**	1,317,428
Addition to other receivables		**(289,516)**	(375,520)
Disposal of a subsidiary	46	**989,185**	51,410
Dividend received from associates		**19,994**	12,935
Dividend received from available-for-sale investments		**14,115**	—
Proceeds from settlement of derivative financial instruments		**1,708**	127,912
Increase in time deposits with original maturity of over three months		**(1,608)**	(13,901)
Increase in pledged bank deposits		**(2,862,713)**	(177,449)
Decrease in other non-current assets		**522,510**	—
Net cash flows used in investing activities		**(4,376,769)**	(3,610,056)

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows used in investing activities		**(4,376,769)**	(3,610,056)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of corporate bonds		**5,965,213**	—
Capital contribution by non-controlling shareholders		**8,100**	7,137
Acquisition of non-controlling interests		**(90,682)**	—
New bank loans		**39,261,619**	34,945,347
Repayment of bank loans		**(40,920,499)**	(21,517,594)
Increase/(decrease) in bank advances on factored trade receivables		**312,812**	—
Net cash flows from financing activities		**4,536,563**	13,434,890
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,032,856**	6,169,487
Cash and cash equivalents at beginning of year		**20,662,089**	14,905,099
Effect of foreign exchange rate changes, net		**(35,310)**	(412,497)
CASH AND CASH EQUIVALENTS AT END OF YEAR	31	**22,659,635**	20,662,089
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	31	**22,438,153**	18,646,944
Time deposits with original maturity of less than three months	31	**221,482**	2,015,145
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**22,659,635**	20,662,089

Statement of Financial Position

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	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**5,195,753**	5,560,786
Prepaid land lease payments	17	**376,597**	405,406
Intangible assets	18	**739,605**	800,989
Investment properties	16	**1,381,593**	—
Investments in subsidiaries	20	**8,583,680**	7,248,807
Investments in jointly-controlled entities	21	**44,559**	43,940
Investments in associates	22	**276,139**	295,150
Available-for-sale investments	23	**323,655**	212,448
Long-term trade receivables	26	**1,199,561**	769,914
Factored long-term trade receivables	27	**3,582,669**	4,059,772
Deferred tax assets	40	**581,507**	622,619
Pledged deposits	31	**3,157,077**	949,666
Long-term prepayments, deposits and other receivables	19	**217,482**	540,278
Total non-current assets		**25,659,877**	21,509,775
CURRENT ASSETS			
Prepaid land lease payments	17	**8,867**	9,309
Inventories	24	**5,668,033**	8,634,564
Amount due from customers for contract works	25	**8,440,613**	12,171,992
Trade and bills receivables	26	**38,732,887**	36,128,157
Factored trade receivables	27	**3,545,295**	3,306,558
Prepayments, deposits and other receivables	28	**12,883,577**	9,583,862
Equity investment at fair value through profit or loss	29	**44,919**	87,180
Derivative financial instruments	30	**9,389**	—
Pledged deposits	31	**734,069**	298,444
Cash and cash equivalents	31	**15,276,437**	13,276,734
Total current assets		**85,344,086**	83,496,800
CURRENT LIABILITIES			
Trade and bills payables	32	**47,661,655**	43,901,916
Amount due to customers for contract works	25	**2,600,053**	2,401,582
Other payables and accruals	33	**19,625,334**	23,095,349
Interest-bearing bank borrowings	34	**9,303,325**	7,229,127
Bank advances on factored trade receivables	27	**3,548,713**	3,473,193
Bonds cum warrants	35	**4,018,134**	—
Derivative financial instruments	30	**42,325**	—
Tax payable		**289,624**	392,721
Dividends payable		**152**	128
Total current liabilities		**87,089,315**	80,494,016
NET CURRENT ASSETS		**(1,745,229)**	3,002,784
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,914,648**	24,512,559

continued/...

Statement of Financial Position (continued)

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	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,914,648**	24,512,559
NON-CURRENT LIABILITIES			
Bonds payable	36	**6,107,993**	3,884,198
Interest-bearing bank borrowings	34	**—**	1,130,090
Bank advances on factored long-term trade receivables	27	**3,582,669**	4,059,772
Financial guarantee contract	48	**3,689**	3,689
Deferred tax liabilities	40	**138,400**	—
Provision for retirement benefits	37	**54,041**	48,716
Other long-term payables		**534,552**	569,892
Total non-current liabilities		**10,421,344**	9,696,357
Net assets		**13,493,304**	14,816,202
EQUITY			
Issued capital	41	**3,440,078**	3,440,078
Shares subject to lock-up under the Share Incentive Scheme	44	**—**	(40,537)
Reserves	43	**10,053,226**	10,730,471
Proposed final dividend	12	**—**	686,190
Total equity		**13,493,304**	14,816,202

Hou Weigui
Director

Shi Lirong
Director

Notes to Financial Statements

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1. CORPORATE INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment and solutions.

In the opinion of the directors, in accordance with Chapter 8 "Qualifications For Listing" of the Rules Governing The Listing of Securities On The Stock Exchange of Hong Kong Limited (the "listing Rules"), the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

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

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

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

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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

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

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

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

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the operation disposed and the portion of the cash-generating unit retained.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, investment properties, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	30 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of not more than 10 years.

Computer software

Purchased computer software is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of 5 years.

Operating concession

Operating concession is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 years, being the period that the operating concession granted to the Group.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investment and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated as at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of comprehensive income. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, bank advances on factored trade receivables, interest-bearing bank borrowings, financial guarantee contracts, bonds cum warrants, bonds payable, other payables and accruals, factoring costs payable and derivative financial instruments.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Bonds cum warrants

The component of bonds cum warrants that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of bonds cum warrants, the fair value of the liability component is determined using a market rate for an equivalent bond without the detachable share purchase warrants; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the detachable share purchase warrants that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the detachable share purchase warrants is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the bonds cum warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedges

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

Amounts recognised 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. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications system contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price telecommunications system contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where an economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract works.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised e to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to other payables or other long-term payable accounts and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) income from the telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) income from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis and (ii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether delivered elements have stand-alone value to the customer. The Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition. Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence of selling price, if it exists; otherwise, third-party evidence of selling price. If neither Group-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the Group can determine vendor-specific objective evidence or third-party evidence of selling price, the Group shall not ignore information that is reasonably available without undue cost and effort.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to profit or loss as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

Defined benefit pension scheme

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefit pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefit pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous period exceeded 10% of the defined benefit obligation at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the plan.

Past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension scheme, past service costs are recognised immediately.

The defined benefit liability comprises the present value of the defined benefit obligation less past service costs not yet recognised. The value of any defined benefit asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the scheme or reductions in the future contributions to the plan.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments

The Company operates a share incentive scheme (the "Share Incentive Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 42.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income and expenses are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosure, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

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

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

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

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

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

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

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

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. For instance, the determination of whether post-contract support services is more than incidental to hardware can impact on whether the hardware is accounted for based on multiple-element revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the HKAS 11 *Construction Contracts*, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billings are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project that are unbilled, are accumulated in the contracts in progress account included in the amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within the amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 Revenue, where revenue is recognised provided that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

For further information on the Group's revenue recognition policies relating to the Group's material revenue streams, please refer to note 2.4 to these consolidated financial statements.

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of these subsidiaries and it is not probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred tax liability for withholding taxes. More details are set out in note 40.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment as at 31 December 2012 was approximately RMB8,011,028,000 (2011: RMB8,646,027,000). The carrying amount of intangible assets as at 31 December 2012 was RMB2,624,944,000 (2011: RMB2,239,648,000). More details are set out in notes 15 and 18.

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2012 was approximately RMB27,557,038,000 (2011: RMB27,961,228,000).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of trade receivables (continued)

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was RMB499,344,000 (2011: RMB482,340,000). The amount of unrecognised tax losses at 31 December 2012 was RMB7,927,125,000 (2011: RMB1,784,749,000). Further details are contained in note 40 to the financial statements.

Deferred development costs

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2012, the best estimate of the carrying amount of capitalised development costs was RMB2,446,934,000 (2011: RMB1,925,610,000).

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back of in the period in which such estimate has been changed. At 31 December 2012, the carrying amount of inventories was RMB11,442,389,000 (2011: RMB14,988,379,000).

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs. The carrying amount of investment properties at 31 December 2012 was RMB1,686,158,000 (2011: Nill).

Provision for warranty

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns. The carrying amount of provision for warranty at 31 December 2012 was RMB246,692,000 (2011: RMB347,610,000).

4. OPERATING SEGMENT INFORMATION

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

(a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(b) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, investments in jointly-controlled entities and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

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

Year ended 31 December 2012	Networks RMB'000	Terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	41,602,641	–	13,612,066	55,214,707
Sale of goods and services	–	25,838,804	3,165,847	29,004,651
	41,602,641	25,838,804	16,777,913	84,219,358
Segment results	5,813,740	544,063	1,397,425	7,755,228
Bank and other interest income				149,409
Dividend income and unallocated gains				4,359,312
Corporate and other unallocated expenses				(12,406,791)
Finance costs				(1,888,481)
Share of profits and losses of associates and jointly-controlled entities				48,123
Loss before tax				(1,983,200)
Segment assets	35,099,356	11,594,963	14,155,206	60,849,525
Investments in jointly-controlled entities				46,814
Investment in associates				408,954
Corporate and other unallocated assets				48,606,198
Total assets				109,911,491
Segment liabilities	9,834,371	953,128	3,966,100	14,753,599
Corporate and other unallocated liabilities				72,519,162
Total liabilities				87,272,761
Other segment information:				
Impairment losses recognised in profit or loss	230,713	143,293	93,044	467,050
Depreciation and amortisation	765,139	475,217	308,573	1,548,929
Capital expenditure*	1,366,329	848,607	551,026	2,765,962

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

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4. OPERATING SEGMENT INFORMATION (continued)

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customers

Revenue from telecommunications systems contracts and terminals from two single customers individually accounted for more than 10% of the Group's consolidated revenues for 2012 in the amount of RMB20,057 million (2011: one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2011 in the amount of RMB9,376 million).

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Notes	**2012 RMB'000**	2011 RMB'000
Revenue			
Telecommunications system contracts		**55,214,707**	55,651,957
Sale of goods		**25,838,804**	26,933,508
Sale of services		**3,165,847**	3,668,991
		84,219,358	86,254,456
Other income			
VAT refunds and other tax subsidies#		**2,512,075**	1,910,186
Dividend income		**13,070**	11,061
Bank and other interest income		**149,409**	283,618
Others##		**569,178**	458,525
		3,243,732	2,663,390
Gains			
Gain on investment in Nationz Technologies Inc		**—**	866,503
Gain on disposal of financial assets available for sale		**—**	5,931
Gain on disposal of derivative financial instruments		**6,908**	128,550
Gain on disposal of subsidiaries	46	**1,194,242**	—
Gain on deemed disposal of interest in an associate		**61,223**	—
Others		**2,616**	—
		1,264,989	1,000,984
		4,508,721	3,664,374

\# Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

\## Others mainly represent gains on government grants, contract penalty income and other miscellaneous incomes.

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6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of goods and services		**45,255,672**	52,185,748
Depreciation	15	**1,042,966**	1,026,399
Amortisation of land lease payments	17	**17,233**	16,983
Amortisation of intangible assets other than deferred development costs	18	**125,690**	85,657
Research and development costs:			
Deferred development costs amortised	18	**363,040**	259,130
Current year expenditure		**9,350,518**	8,951,729
Less: Deferred development costs		**(884,364)**	(718,236)
		8,829,194	8,492,623
Fair value losses, net*:			
Derivative instruments — transactions not qualifying as hedges	30	**49,456**	77,860
Equity investments held for trading		**42,261**	10,815
Investment properties		**15,679**	—
Impairment of trade receivables*	26	**330,484**	576,537
Provision for warranties	39	**303,007**	516,152
Write-down of inventories to net realisable value**		**134,007**	370,150
Impairment of property, plant and equipment	15	**2,559**	—
Minimum lease payments under operating leases on land and buildings		**622,478**	509,877
Contingent rental income in respect of operating leases	50(a)	**(159,055)**	(89,219)
Auditors' remuneration		**6,985**	7,292
Staff costs (including directors', chief executives' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**11,653,643**	11,465,702
Equity-settled share option expense		**6,722**	41,821
Retirement benefit scheme contributions:			
Defined benefit pension scheme	37	**6,314**	6,352
Defined contribution pension schemes		**750,667**	730,096
		12,417,346	12,243,971
Foreign exchange loss*		**136,113**	836,993
Loss on disposal of items of property, plant and equipment*		**19,446**	30,629
Gain on disposal of Nationz Technologies Inc.		**—**	(866,503)
(Gain)/loss on disposal of subsidiaries	46	**(1,194,242)**	18,801
Gain on deemed disposal of interest in an associate		**(61,223)**	—
Fair value losses of assumed liabilities in a previous disposal of a subsidiary		**67,295**	—
Other		**(2,616)**	—
Gain on disposal of available-for-sale investments		**—**	(5,931)

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

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

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	Group 2012 RMB'000	Group 2011 RMB'000
Interest on bank loans wholly repayable within five years		**856,066**	691,954
Interest on bonds cum warrants	35	**165,936**	160,408
Interest on bonds payable	36	**142,781**	—
Total interest expense on financial liabilities not at fair value through profit or loss		**1,164,783**	852,362
Other finance costs:			
Finance costs on trade receivables factored and bills discounted		**723,698**	521,801
		1,888,481	1,374,163

8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors', chief executives' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group 2012 RMB'000	Group 2011 RMB'000
Fees	**—**	—
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**4,164**	4,144
Performance related bonuses*	**755**	6,127
Equity-settled share option expense	**—**	30
Retirement benefit scheme contributions	**68**	110
	4,987	10,411

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2012 RMB'000	2011 RMB'000
Qu Xiaohui	130	130
Wei Wei	130	130
Tan Zhenhui	130	130
Timothy Alexander Steinert	130	130
Chen Naiwei	130	130
	650	650

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

(b) Executive directors, non-executive directors, chief executives and supervisors

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2012						
Executive directors:						
Yin Yimin	–	354	400	–	17	771
Shi Lirong	–	548	350	–	17	915
He Shiyou	–	511	–	–	33	544
	–	1,413	750	–	67	2,230
Non-executive directors:						
Hou Weigui	–	327	–	–	–	327
Xie Weiliang	–	100	–	–	–	100
Zhang Junchao	–	100	–	–	–	100
Lei Fanpei	–	17	–	–	–	17
Wang Zhanchen	–	100	–	–	–	100
Dong Lianbo	–	100	–	–	–	100
Zhang Jianheng	–	75	–	–	–	75
	–	819	–	–	–	819
	–	2,232	750	–	67	3,049
Supervisors:						
Zhang Taifeng	–	330	–	–	–	330
He Xuemei	–	268	–	–	–	268
Zhou Huidong	–	319	–	–	–	319
Wang Yan	–	–	–	–	–	–
Xu Weiyan	–	355	5	–	–	360
	–	1,272	5	–	–	1,277

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

	Fees	Salaries, bonuses, allowances and welfare	Performance related bonuses	Share Incentive Scheme	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011						
Executive directors:						
Yin Yimin	—	374	—	—	16	390
Shi Lirong	—	559	2,464	—	16	3,039
He Shiyou	—	547	935	—	30	1,512
	—	1,480	3,399	—	62	4,941
Non-executive directors:						
Hou Weigui	—	327	824	—	—	1,151
Xie Weiliang	—	100	—	7	—	107
Zhang Junchao	—	100	—	7	—	107
Lei Fanpei	—	100	—	—	—	100
Wang Zhanchen	—	100	—	—	—	100
Dong Lianbo	—	100	—	7	—	107
	—	827	824	21	—	1,672
	—	2,307	4,223	21	62	6,613
Supervisors:						
Zhang Taifeng	—	327	824	—	—	1,151
He Xuemei	—	251	366	—	16	633
Zhou Huidong	—	289	384	9	16	698
Wang Yan	—	—	—	—	—	—
Xu Weiyan	—	320	330	—	16	666
	—	1,187	1,904	9	48	3,148

There was no arrangement under which the directors, chief executives or supervisors waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2011: Nil) directors, chief executives or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2011: five) highest paid employees who are neither a director nor chief executive or a supervisor of the Company are as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**13,020**	13,336
Performance related bonuses	**5,576**	8,872
Retirement benefit scheme contributions	**—**	—
	18,596	22,208

The number of non-director, non-supervisor, non-chief executive and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
RMB2,000,001 to RMB3,000,000	**1**	—
RMB3,000,001 to RMB4,000,000	**3**	3
RMB4,000,001 to RMB5,000,000	**1**	1
RMB5,000,001 to RMB6,000,000	**—**	—
RMB6,000,001 to RMB7,000,000	**—**	—
RMB7,000,001 to RMB8,000,000	**—**	1
	5	5

During the year, no director, chief executive or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, chief executives, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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10. INCOME TAX

	2012 RMB'000	2011 RMB'000
Group:		
Current — Hong Kong	**(5,380)**	2,974
Current — Mainland China	**584,672**	799,675
Current — Overseas	**131,898**	152,152
Deferred (note 40)	**(89,769)**	(562,758)
Total tax charge for the year	**621,421**	392,043

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

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

Nanjing Zhongxingxin Software Company Limited, recognised as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. The current year is its third profitable year.

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

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10. INCOME TAX (continued)

Shenzhen Zhongxing Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2011 to 2012. The enterprise income tax rate applied in 2012 was 10%.

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

ZTEsoft Technology Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2011 to 2012. The enterprise income tax rate applied in 2012 was 10%.

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

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

ZTE Microelectronics Technology Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important IC Design Enterprise under the National Planning Layout for the years from 2011 to 2012. The enterprise income tax rate applied in 2012 was 10%.

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

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

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

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

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

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10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2012		2011	
	RMB'000	**%**	RMB'000	%
Profit/(loss) before tax	**(1,983,200)**		2,635,136	
Tax at the statutory tax rate	**(495,800)**	**25.0**	658,784	25.0
Lower tax rate for specific provinces or enacted by local authority	**(63,206)**	**3.2**	(499,077)	(18.9)
Adjustments in respect of current tax of previous periods	**(40,047)**	**2.0**	44,357	1.7
Profits and losses attributable to associates and jointly-controlled entities	**(19,195)**	**1.0**	(12,910)	(0.5)
Income not subject to tax	**(303,867)**	**15.3**	(324,956)	(12.3)
Expenses not deductible for tax	**216,111**	**(10.9)**	198,044	7.5
Tax losses utilised from previous years	**(59,414)**	**3.0**	(66,310)	(2.5)
Tax losses of subsidiaries not recognised	**1,386,839**	**(69.9)**	394,111	15.0
Tax charge at the Group's effective rate	**621,421**	**(31.3)**	392,043	14.9

The share of tax attributable to associates amounting to RMB3,561,000 (2011: RMB9,656,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of comprehensive income.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of approximately RMB1,474,442,000 (2011: a profit of RMB519,110,000) which has been dealt with in the financial statements of the Company (note 43(b)).

12. DIVIDEND

	2012	2011
	RMB'000	RMB'000
Proposed final — RMBNil (2011: RMB0.2) per ordinary share	**—**	686,190

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

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

The basic earnings/(loss) per share amount is computed by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 3,430,952,000 (2011: 3,390,411,470) in issue during the year.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares. The effect of shares assumed to have been issued at no consideration has been excluded from the computation of diluted loss per share for the year ended 31 December 2012 as its effects would be anti-dilutive.

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

	2012 **RMB'000**	2011 RMB'000
Earnings		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**(2,840,962)**	2,060,166

	Number of shares	
	2012 **'000**	2011 '000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation[#]	**3,430,952**	3,390,411
Shares subject to lock-up under the Share Incentive Scheme	**—**	6,874
Adjusted weighted average number of ordinary shares in issue	**3,430,952**	3,397,285

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

14. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to their respective statutory surplus reserves (the "SSR") until such reserves reach 50% of the registered capital of these companies. Part of the SSR may be capitalised as these companies' share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

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15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Lands and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	4,318,775	106,911	6,064,536	353,636	1,580,462	12,424,320
Accumulated depreciation and impairment	(488,280)	(66,245)	(3,077,711)	(146,057)	—	(3,778,293)
Net carrying amount	3,830,495	40,666	2,986,825	207,579	1,580,462	8,646,027
At 1 January 2012, net of accumulated depreciation and impairment	3,830,495	40,666	2,986,825	207,579	1,580,462	8,646,027
Additions	13,643	52,895	761,146	27,161	608,303	1,463,148
Disposals	(40,526)	(15,367)	(167,810)	(17,634)	(53,756)	(295,093)
Transfer to investment property (note16)	(261,163)	—	(8,843)	—	(451,309)	(721,315)
Depreciation provided during the year	(152,822)	(26,167)	(828,292)	(35,685)	—	(1,042,966)
Transfers	727,274	—	131,988	—	(859,262)	—
Exchange realignments	(14,601)	(13,435)	(7,763)	(364)	(51)	(36,214)
Impairment	—	—	(2,559)	—	—	(2,559)
At 31 December 2012, net of accumulated depreciation and impairment	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028
At 31 December 2012:						
Cost	4,713,201	88,155	6,392,844	348,045	824,387	12,366,632
Accumulated depreciation and impairment	(610,901)	(49,563)	(3,528,152)	(166,988)	—	(4,355,604)
Net carrying amount	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group					
	Lands and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	3,695,969	140,168	5,884,514	354,919	1,146,739	11,222,309
Accumulated depreciation and impairment	(374,479)	(94,724)	(2,882,734)	(150,096)	—	(3,502,033)
Net carrying amount	3,321,490	45,444	3,001,780	204,823	1,146,739	7,720,276
At 1 January 2011, net of accumulated depreciation and impairment	3,321,490	45,444	3,001,780	204,823	1,146,739	7,720,276
Additions	207,507	62,030	1,016,450	57,184	1,307,802	2,650,973
Disposals	(10,619)	(29,177)	(544,751)	(17,685)	—	(602,232)
Depreciation provided during the year	(118,380)	(34,405)	(839,158)	(34,456)	—	(1,026,399)
Transfers	449,478	—	417,577	—	(867,055)	—
Exchange realignments	(18,981)	(3,226)	(65,073)	(2,287)	(7,024)	(96,591)
At 31 December 2011, net of accumulated depreciation and impairment	3,830,495	40,666	2,986,825	207,579	1,580,462	8,646,027
At 31 December 2011:						
Cost	4,318,775	106,911	6,064,536	353,636	1,580,462	12,424,320
Accumulated depreciation and impairment	(488,280)	(66,245)	(3,077,711)	(146,057)	—	(3,778,293)
Net carrying amount	3,830,495	40,666	2,986,825	207,579	1,580,462	8,646,027

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	3,246,435	30,935	3,543,348	258,415	739,549	7,818,682
Accumulated depreciation and impairment	(434,220)	(28,105)	(1,691,191)	(104,380)	—	(2,257,896)
Net carrying amount	2,812,215	2,830	1,852,157	154,035	739,549	5,560,786
At 1 January 2012, net of accumulated depreciation and impairment	2,812,215	2,830	1,852,157	154,035	739,549	5,560,786
Additions	1,513	—	539,634	6,700	280,259	828,106
Disposals	—	—	(23,284)	(2,672)	(4,510)	(30,466)
Transfer to investment property (note16)	(210,793)	—	(8,843)	—	(219,368)	(439,004)
Transfers to subsidiaries	—	—	(12,947)	—	—	(12,947)
Depreciation provided during the year	(118,652)	(971)	(568,737)	(22,362)	—	(710,722)
Transfers	722,223	—	18,993	—	(741,216)	—
At 31 December 2012, net of accumulated depreciation and impairment	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753
At 31 December 2012:						
Cost	3,733,107	4,850	3,907,081	259,588	54,714	7,959,340
Accumulated depreciation and impairment	(526,601)	(2,991)	(2,110,108)	(123,887)	—	(2,763,587)
Net carrying amount	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	2,915,435	67,842	2,936,164	234,240	796,915	6,950,596
Accumulated depreciation and impairment	(340,272)	(59,618)	(1,400,754)	(99,150)	—	(1,899,794)
Net carrying amount	2,575,163	8,224	1,535,410	135,090	796,915	5,050,802
At 1 January 2011, net of accumulated depreciation and impairment	2,575,163	8,224	1,535,410	135,090	796,915	5,050,802
Additions	—	—	739,496	47,759	425,535	1,212,790
Disposals	—	—	(34,407)	(6,936)	—	(41,343)
Transfers to subsidiaries	—	—	(42,070)	—	—	(42,070)
Depreciation provided during the year	(93,948)	(5,394)	(498,173)	(21,878)	—	(619,393)
Transfers	331,000	—	151,901	—	(482,901)	—
At 31 December 2011, net of accumulated depreciation and impairment	2,812,215	2,830	1,852,157	154,035	739,549	5,560,786
At 31 December 2011:						
Cost	3,246,435	30,935	3,543,348	258,415	739,549	7,818,682
Accumulated depreciation and impairment	(434,220)	(28,105)	(1,691,191)	(104,380)	—	(2,257,896)
Net carrying amount	2,812,215	2,830	1,852,157	154,035	739,549	5,560,786

As at 31 December 2012, none of the Group's buildings (2011: certain buildings with a net carrying amount of RMB6,800,000) and certain of the Group's machinery equipment with the carrying amount of RMB225,208,000 (2011: RMB252,894,000) were pledged to secure bank borrowings granted to the Group(note 34).

As at 31 December 2012, RMB683,394,000 of construction in progress (2011: Nil) were pledged to secure bank borrowings granted to the Group (note 34).

As at 31 December 2012, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Xi'an and An'hui, the PRC, with net carrying value of approximately RMB1,128,081,000 (2011: RMB1,253,597,000), RMB1,916,442,000 (2011: RMB1,257,280,000), RMB211,076,000 (2011: RMB346,728,000), RMB203,338,000 (2011: RMB209,667,000) and RMB5,562,000 (2011: RMB5,745,000), respectively.

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16. INVESTMENT PROPERTIES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fair value				
Carrying amount at 1 January 2012	**–**	–	**–**	–
Transfer from owner-occupied properties				
Property, plant and equipment (note 15)	**721,315**	–	**439,004**	–
Prepaid land lease payments (note 17)	**47,853**	–	**30,563**	–
	769,168	–	**469,567**	–
Revaluation gain upon transfer from owner-occupied properties to investment properties	**932,669**	–	**922,664**	–
Fair value on transfer date	**1,701,837**		**1,392,231**	
Net gain from a fair value adjustment (note 6)	**(15,679)**	–	**(10,638)**	–
Carrying amount at 31 December 2012	**1,686,158**	–	**1,381,593**	–
Completed investment properties	**633,289**	–	**633,289**	–
Investment properties under construction	**1,052,869**	–	**748,304**	–
	1,686,158	–	**1,381,593**	–

The Group's investment properties are situated in Mainland China and are held under a medium term lease.

The Group's investment properties were revalued on 31 December 2012 by 深圳市天健國衆聯資產評估土地房地產估價有限公司, independent professionally qualified valuers, at RMB1,686,158,000 on an open market, existing use basis. The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third-parties under operating leases, further summary details of which are included in note 52 to the financial statements.

Valuations were based on either: (i) direct comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession by making reference to comparable sales transactions as available in the relevant market; or (ii) residual method of valuation which is common in valuing development sites by establishing the market value of the properties on an "as-if" completed basis with appropriate deduction on construction costs, professional fees and interest payments to be incurred as well as developer's profits; or (iii) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties on the balance sheet date.

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17. PREPAID LAND LEASE PAYMENTS

	Group 2012 RMB'000	Group 2011 RMB'000
Carrying amount at 1 January	**880,908**	775,230
Additions during the year	**240,815**	124,583
Disposals	**(147,609)**	(1,922)
Transfer to investment properties	**(47,853)**	—
Recognised during the year	**(17,233)**	(16,983)
Carrying amount at 31 December	**909,028**	880,908
Current portion	**(19,677)**	(18,878)
Non-current portion	**889,351**	862,030

All the leasehold lands are held under medium term leases and are situated in Mainland China.

	Company 2012 RMB'000	Company 2011 RMB'000
Carrying amount at 1 January	**414,715**	423,332
Additions during the year	**10,473**	2,567
Disposals	**—**	(1,922)
Transfer to investment properties	**(30,563)**	—
Recognised during the year	**(9,161)**	(9,262)
Carrying amount at 31 December	**385,464**	414,715
Current portion	**(8,867)**	(9,309)
Non-current portion	**376,597**	405,406

All the leasehold lands are held under medium term leases and are situated in Mainland China.

As at 31 December 2012, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB476,871,000 (31 December 2011: RMB469,647,000).

As at 31 December 2012, a subsidiary of the Group pledged its land use right with a net carrying value of RMB24,171,000 (2011: RMB3,681,000) as security for a bank loan (note 34).

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18. INTANGIBLE ASSETS

	Group				
	Technology know-how RMB'000	Computer software RMB'000	Operating concession RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2012					
Cost at 1 January 2012, net of accumulated amortisation and impairment	**2,549**	**99,104**	**212,385**	**1,925,610**	**2,239,648**
Additions	**3,705**	**173,930**	**—**	**884,364**	**1,061,999**
Retirements and disposals	**—**	**(75,388)**	**(112,585)**	**—**	**(187,973)**
Amortisation provided during the year	**(396)**	**(71,603)**	**(53,691)**	**(363,040)**	**(488,730)**
At 31 December 2012	**5,858**	**126,043**	**46,109**	**2,446,934**	**2,624,944**
At 31 December 2012:					
Cost	**10,689**	**438,971**	**222,905**	**3,541,560**	**4,214,125**
Accumulated amortisation and impairment	**(4,831)**	**(312,928)**	**(176,796)**	**(1,094,626)**	**(1,589,181)**
Net carrying amount	**5,858**	**126,043**	**46,109**	**2,446,934**	**2,624,944**
31 December 2011					
Cost at 1 January 2011, net of accumulated amortisation and impairment	3,180	80,709	32,171	1,466,504	1,582,564
Additions	—	52,509	296,966	718,236	1,067,711
Retirements and disposals	(140)	(2,147)	(27,553)	—	(29,840)
Amortisation provided during the year	(491)	(31,967)	(89,199)	(259,130)	(380,787)
At 31 December 2011	2,549	99,104	212,385	1,925,610	2,239,648
At 31 December 2011:					
Cost	6,984	387,537	335,490	2,657,196	3,387,207
Accumulated amortisation and impairment	(4,435)	(288,433)	(123,105)	(731,586)	(1,147,559)
Net carrying amount	2,549	99,104	212,385	1,925,610	2,239,648

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18. INTANGIBLE ASSETS (continued)

	Company			
	Computer software RMB'000	Operating concession RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2012				
Cost at 1 January 2012, net of accumulated amortisation and impairment	**90,305**	**210,696**	**499,988**	**800,989**
Additions	**84,377**	**—**	**164,592**	**248,969**
Retirements and disposals	**(15,260)**	**(112,566)**	**—**	**(127,826)**
Amortisation provided during the year	**(59,718)**	**(53,434)**	**(69,375)**	**(182,527)**
At 31 December 2012	**99,704**	**44,696**	**595,205**	**739,605**
At 31 December 2012				
Cost	**386,605**	**185,787**	**1,019,009**	**1,591,401**
Accumulated amortisation and impairment	**(286,901)**	**(141,091)**	**(423,804)**	**(851,796)**
Net carrying amount	**99,704**	**44,696**	**595,205**	**739,605**
31 December 2011				
Cost at 1 January 2011, net of accumulated amortisation and impairment	69,587	—	350,767	420,354
Additions	52,492	295,894	210,889	559,275
Retirements and disposals	(891)	—	—	(891)
Amortisation provided during the year	(30,883)	(85,198)	(61,668)	(177,749)
At 31 December 2011	90,305	210,696	499,988	800,989
At 31 December 2011				
Cost	356,875	295,894	854,417	1,507,186
Accumulated amortisation and impairment	(266,570)	(85,198)	(354,429)	(706,197)
Net carrying amount	90,305	210,696	499,988	800,989

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19. LONG-TERM, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits for purchase of property, plant and equipment	**217,482**	161,722	**217,482**	161,722
Upfront fee	**—**	529,518	**—**	378,556
Other long-term receivable	**229,744**	—	**—**	—
	447,226	691,240	**217,482**	540,278

20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**6,191,055**	4,481,184
Less: Impairment#	**(92,315)**	(96,215)
Loans to subsidiaries	**2,484,940**	2,863,838
	8,583,680	7,248,807

An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB1,017,031,000 (before deducting the impairment loss) (2011: RMB514,760,000) because the respective subsidiaries were loss-making.

The Company's balances of trade and bills receivables, other receivables, trade and bills payables and other payables with the subsidiaries are disclosed in notes 26, 28, 32 and 33 to the financial statements, respectively. The amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these advances are considered as quasi-equity loans to the subsidiaries.

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20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited# (i) (深圳市中興康訊電子有限公司)	The PRC/Mainland China	RMB1,755,000,000	100	–	Manufacture and sale of electronic components
ZTEsoft Technology Company Limited# (ii) (南京中興軟創科技股份有限公司)	The PRC/Mainland China	RMB300,000,000	80.1	–	Sale and development of business operation support systems
Zhongxing Software Company Limited ("Zhongxing Software")# (ii) (深圳市中興軟件有限責任公司)	The PRC/Mainland China	RMB51,080,000	100	–	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing New Software")# (i) (iii) (西安中興新軟件有限責任公司)	The PRC/Mainland China	RMB600,000,000	100	–	Development of telecommunications software systems and provision of related consultancy services
Wuxi Zhongxing Optoelectronics Technologies Company Limited# (i) (無錫市中興光電子技術有限公司)	The PRC/Mainland China	RMB10,000,000	65	–	Development of technology for optical electronic products and provision of related technical services
ZTE (Hangzhou) Company Limited# (i) (iii) (中興通訊(杭州)有限責任公司)	The PRC/Mainland China	RMB100,000,000	100	–	Telecommunications and related equipment manufacturing
ZTE Mobile Tech Company Limited# (i) (iii) (深圳市中興移動通信有限公司)	The PRC/Mainland China	RMB79,166,000	90	–	Development, manufacture and sale of telecommunications related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HK$995,000,000	100	–	Marketing and sale of telecommunications system equipment and provision of management services
Shenzhen Zhongxing ICT Company Limited# (i) (iii) (深圳中興網信科技有限公司)	The PRC/Mainland China	RMB60,000,000	90	–	Design and sale of corporate management hard/software products
ZTE Technology & Service Company Limited# (i) (深圳市中興通訊技術服務有限責任公司)	The PRC/Mainland China	RMB50,000,000	90	10	Development, manufacture and sale of telecommunications related products
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited# (i) (iii) (上海中興通訊技術有限責任公司)	The PRC/Mainland China	RMB10,000,000	90	–	Development, manufacture and sale of computer software and telecommunications system equipment
ZTE Group Finance Company Limited# (i) (中興通訊集團財務有限公司)	The PRC/Mainland China	RMB1,000,000,000	100	–	Financing and consulting

(i) These subsidiaries are registered as limited companies under PRC law.

(ii) These subsidiaries are registered as foreign-invested enterprises under PRC law.

(iii) The statutory financial statements of these subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The English names of these subsidiaries are directly translated from their Chinese names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investment, at cost	**—**	—	**44,559**	43,940
Share of net assets	**19,510**	18,891	**—**	—
Goodwill on acquisition	**27,304**	27,304	**—**	—
	46,814	46,195	**44,559**	43,940

The Group's balances of trade receivables with jointly-controlled entities are disclosed in notes 26 to the financial statements. The amounts due from jointly-controlled entities are unsecured and interest-free.

Particulars of the jointly-controlled entities are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit Sharing	Principal activities
Bestel Communications Limited ("Bestel")	Republic of Cyprus	CYP600,000	50	50	50	Provision of telecommunications solutions and related consultancy services
Puxing Mobile Tech Company Limited# (普興移動通訊設備有限公司)	The PRC/ Mainland China	RMB128,500,000	34	50	50	Provision of telecommunications solutions and related consultancy services

The English name of this associate is directly translated from its Chinese name.

The investment in Bestel is held by a wholly-owned subsidiary of the Company. There was no operating activity in 2012.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2012	2011
	RMB'000	RMB'000
Share of the jointly-controlled entities' assets and liabilities		
Assets	**142,496**	152,652
Liabilities	**122,986**	133,761
Net assets	**19,510**	18,891
Share of the jointly-controlled entities' results		
Revenue	**128,885**	218,339
Profit before tax	**619**	440
Tax	**—**	—
Profit after tax	**619**	440

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22. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares, at cost	**—**	—	**285,913**	304,924
Share of net assets	**408,954**	467,896	**—**	—
	408,954	467,896	**285,913**	304,924
Provision for impairment	**—**	—	**(9,774)**	(9,774)
	408,954	467,896	**276,139**	295,150

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 26 and 32 to the financial statements, respectively.

Particulars of the principal associates are as follows:

Name	Place of registration and operations	Nominal value of issued and paid-up capital/registered capital	Percentage of ownership interest attributable to the Group	Principal activities
Wuxi Kaier Technology Co., Ltd.# * (無錫凱爾科技有限公司)	The PRC/Mainland China	RMB11,332,729	42.64**	Development, manufacture and sale of camera lenses for mobile phones
ZTE Energy Co,. Ltd.# * (中興能源有限公司)	The PRC/Mainland China	RMB1,290,000,000	23.26	Research, development and sale of biological energy and new energy
Sizhuo Zhongxing Hangzhou Technology Co.,Ltd# * (思卓中興(杭州)科技有限公司)	The PRC/Mainland China	USD7,000,000	49.00	Research and sale of communication device
Wuxi Hongtu Micro-electronic Technology Co., Ltd # * (無錫鴻圖微電子技術有限公司)	The PRC/Mainland China	RMB62,860,000	35.00**	Design IC element
Shenzhen Zhongxing Hetai Hotel Investment and Management Co., Ltd# * (深圳市中興和泰酒店投資管理有限公司)	The PRC/Mainland China	RMB30,000,000	18.00	Hotel management service
Xingtian Communication Technology (Tianjin) Co., Ltd#* (興天通訊技術(天津)有限公司)	The PRC/Mainland China	RMB20,000,000	30.00**	Research and sales of communication device

The English names of these associates are directly translated from their Chinese names.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** These associates are held through a non-wholly-owned subsidiary of the Company which has significant influence over the boards of directors of these associates.

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22. INVESTMENTS IN ASSOCIATES (continued)

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The year end date of the financial statements of the above associates is coterminous with that of the Group.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2012	2011
	RMB'000	RMB'000
Assets	**3,702,646**	3,996,833
Liabilities	**1,705,680**	1,873,264
Revenues	**865,993**	1,819,101
Profit	**263,896**	286,645

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investment, at market value	**38,420**	—	**—**	—
Unlisted equity investments, at cost	**1,053,915**	819,972	**323,655**	212,448
	1,092,335	819,972	**323,655**	212,448

The above investments consist of investments in equity securities which have been designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2012, the above listed equity investment with a carrying amount of RMB38,420,000 (2011:Nill) was stated at market value because the investee company became listed in June 2012. And the above unlisted equity investments with a carrying amount of RMB1,053,915,000 (2011: RMB819,972,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

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24. INVENTORIES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**3,359,605**	3,987,559	**1,296,103**	1,588,199
Work in progress	**919,285**	1,570,680	**462,728**	833,901
Finished goods	**2,983,703**	3,379,872	**572,237**	1,210,817
Contract works in progress	**4,179,796**	6,050,268	**3,336,965**	5,001,647
	11,442,389	14,988,379	**5,668,033**	8,634,564

25. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**13,666,100**	14,588,455	**8,440,613**	12,171,992
Amount due to customers for contract works	**(3,459,545)**	(3,068,804)	**(2,600,053)**	(2,401,582)
	10,206,555	11,519,651	**5,840,560**	9,770,410
Contract costs incurred plus recognised profits	**43,111,813**	42,480,623	**25,630,688**	32,769,949
Less: Recognised losses to date	**193,877**	160,242	**17,603**	68,432
Less: Progress billings	**32,711,381**	30,800,730	**19,772,525**	22,931,107
	10,206,555	11,519,651	**5,840,560**	9,770,410

26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

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

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26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

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

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

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

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

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB639,662,000 (2011: RMB673,371,000) with a carrying amount before provision of RMB639,662,000 (2011: RMB673,371,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**5,086,352**	5,746,119	**9,174,188**	9,241,251
Less than one year past due	**13,948,065**	19,420,846	**22,537,797**	19,407,690
	19,034,417	25,166,965	**31,711,985**	28,648,941

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

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

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

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

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

The Group has pledged trade receivables of RMB950,000,000 and bills receivables of RMB617,229,000 (2011: RMB1,105,174,000 and RMB1,015,380,000) to secure the bank borrowings (note 34).

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27. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group entered into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them were derecognized in their entirety but for which the Group retains continuing involvement. More details are set in note 45.

In the prior year, the Company entered into a contract of a telecommunications system project (the "project") with an African telecommunications operator with a total contract amount of USD1,500,000,000. The related accounts receivable are to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. In 2009, two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to the receivable purchase agreements (the "Agreements"), which stipulates the factoring conditions based on the future performance of the African telecommunications operator. During the financing period, the banks will charge interest to the Company and the telecommunications operator. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2012, under the above arrangements, accounts receivable due from the customer amounted to RMB7,745,078,000 (2011: RMB7,643,736,000) among which RMB6,196,062,000 (2011: RMB6,114,989,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB1,549,016,000 (2011: RMB1,528,747,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**742,551**	494,200	**44,783**	22,969
Deposits and other receivables	**4,242,756**	4,224,883	**2,649,421**	3,125,304
Due from subsidiaries	**—**	—	**3,947,307**	2,736,934
Dividends receivable	**400**	1,500	**6,242,066**	3,696,751
Interest receivable	**307**	8,257	**—**	1,904
Entrusted loan#	**—**	300,000	**—**	—
Advances and loans	**241,063**	—	**—**	—
	5,227,077	5,028,840	**12,883,577**	9,583,862

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The entrusted loan as at 31 December 2011 was fully collected on 18 January 2012.

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Balances of amounts due from subsidiaries, the controlling shareholder, related companies and associate companies included in the above are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**10,198,466**	6,433,685
The controlling shareholder	**—**	642	**—**	—
Associate companies	**250,032**	—	**—**	—
Related companies	**841**	2,377	**—**	—
	250,873	3,019	**10,198,466**	6,433,685

Amounts receivable from subsidiaries and related companies are unsecured, interest-free and payable on demand.

29. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Listed equity investment, at market value:		
Mainland China	**44,919**	87,180

The above equity investment as at 31 December 2012 represented the equity interests of 1.15% in Nationz Technologies, Inc. which was listed on Growth Enterprise Market on 29 April 2010 by way of initial public offering.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**26,050**	**(69,391)**	8,438	(2,433)
Other forward contracts	**35,328**	**(30,239)**	—	—
Interest rate swaps	**—**	**(16,856)**	—	(4,120)
	61,378	**(116,486)**	8,438	(6,553)
Portion classified as non-current:				
Interest rate swaps	**—**	**(10,747)**	—	(1,248)
Current portion	**61,378**	**(105,739)**	8,438	(5,305)

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30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Company			
	2012		2011	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**9,389**	**(42,325)**	—	—

Forward currency contracts

The carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well-known banks in Mainland China and Hong Kong with A- or above credit ratings.

The Group has entered into these contracts to manage its exchange rate exposure. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Losses on the fair value amounting to RMB49,456,000 (2011: gains of RMB77,860,000) were recognised in profit or loss during the year.

Other forward contracts

On 16 November 2012, ZTE (HK) Limited ("ZTE HK"), a wholly-owned subsidiary of ZTE entered into an subscription agreement with China Access (Holdings) Limited ("China All Access"), pursuant to which ZTE HK has agreed to subscribe for 112,000,000 ordinary shares and convertible bonds of HKD201,500,000, the fair value of the forward contract for subscription of ordinary shares and convertible bonds of China All Access was RMB35,328,083 and RMB–30,239,072, respectively, as at 31 December 2012. ZTE HK exercised the subscription rights and completed the subscription on 15 January 2013.

Interest rate swaps — cash flow hedges

Interest rate swaps are designated as hedging instruments in respect of expected interest payments for floating rate debts incurred by the Group.

The terms of the interest rate swaps have been negotiated to match the terms of the debts. The cash flow hedges relating to expected interest payments were assessed to be highly effective and a net loss of RMB12,736,000 was included in the hedging reserve as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Total fair value loss	**(12,736)**	(4,120)
Net loss on cash flow hedges	**(12,736)**	(4,120)

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31. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**27,283,500**	22,421,633	**19,167,583**	14,524,844
Less:				
Pledged deposits — non-current	**(3,157,077)**	(949,666)	**(3,157,077)**	(949,666)
Pledged deposits — current	**(1,380,180)**	(724,878)	**(734,069)**	(298,444)
Time deposits with original maturity of over three months	**(86,608)**	(85,000)	**—**	—
Cash and cash equivalents	**22,659,635**	20,662,089	**15,276,437**	13,276,734
Time deposits with original maturity of less than three months	**(221,482)**	(2,015,145)	**—**	—
Unrestricted bank balances and cash	**22,438,153**	18,646,944	**15,276,437**	13,276,734

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB12,010,286,000 (2011: RMB12,263,372,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Pledged deposits include the deposits as at 31 December 2012 of RMB404,736,000 (2011: RMB44,464,000) with the People's Bank of China, at a statutory reserve of 15% (2011: 16%) for RMB on customer deposits held by ZTE Group Finance Company Limited.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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32. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**29,083,388**	32,263,588	**47,305,924**	43,665,761
7 to 12 months	**177,299**	299,452	**110,417**	217,409
1 to 2 years	**267,454**	87,206	**237,015**	3,992
2 to 3 years	**31,811**	13,278	**4,212**	1,101
Over 3 years	**34,027**	28,728	**4,087**	13,653
	29,593,979	32,692,252	**47,661,655**	43,901,916

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

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

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

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

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33. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2012**	2011	**2012**	2011
		RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance		**3,106,638**	2,458,428	**1,765,544**	1,608,213
Other payables		**7,903,371**	7,660,950	**7,728,277**	8,312,110
Factoring costs payable		**104,356**	101,759	**104,356**	101,759
Advance receipts for staff housing scheme		**614,189**	464,800	**614,189**	464,800
Accruals		**2,856,278**	2,371,621	**940,864**	1,087,982
Provision for warranties	39	**246,692**	347,610	**127,805**	209,246
Due to the controlling shareholder		**1,363**	2,363	**308**	—
Due to subsidiaries		**—**	—	**8,343,734**	11,310,674
Due to related companies		**884**	359	**257**	565
		14,833,771	13,407,890	**19,625,334**	23,095,349

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder, subsidiaries and related companies are unsecured, interest-free and are repayable on demand.

34. INTEREST-BEARING BANK BORROWINGS

	2012			2011		
Group	**Effective interest rate (%)**	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**1.3-12.75**	**2013**	**4,471,431**	3.5-12.6	2012	4,481,762
Bank loans — unsecured	**Libor+1.6-4.5**	**2013**	**7,351,195**	Libor+0.9-5.3	2012	5,282,900
Bank loans — unsecured	**Sibor+1.2**	**2013**	**157,137**	—	—	—
Bank loans — guaranteed*	**Libor+1.6-1.95**	**2014-2016**	**5,626,824**	—	—	—
Bank loans — guaranteed	**3**	**2013**	**6,286**	—	—	—
Bank loans — secured	**3.0-7.0**	**2013**	**817,020**	3.8-10.5	2012	2,111,786
			18,429,893			11,876,448
Non-current						
Bank loans — secured	**Libor+1.6**	**2016**	**180,419**	Libor+1.5	2016	243,467
Bank loans — secured	**3.0-6.65**	**2014-2015**	**807,571**	—	—	—
Bank loans — guaranteed	**—**	**—**	**—**	Libor+1.6-1.9	2014-2016	5,560,844
Bank loans — guaranteed	**—**	**—**	**—**	3	2013	6,301
Bank loans — unsecured	**0%**	**2015**	**2,000**	Libor+3.8	2014	630,090
Bank loans — unsecured	**—**	**—**	**—**	4.76	2013-2014	500,000
			989,990			6,940,702
			19,419,883			18,817,150

* Excludes the effects of related interest rate swaps as further detailed in note 30 to the financial statement.

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34. INTEREST-BEARING BANK BORROWINGS (continued)

Company	2012 Effective interest rate (%)	2012 Maturity	2012 RMB'000	2011 Effective interest rate (%)	2011 Maturity	2011 RMB'000
Current						
Bank loans — unsecured	**2.79-6.89**	**2013**	**3,206,390**	4.78-7.7	2012	2,320,000
Bank loans — unsecured	**Libor+1.90-4.50**	**2013**	**6,096,935**	Libor+2.0-5.25	2012	4,892,244
Bank loans — secured	**–**	**–**	**–**	9	2012	16,883
			9,303,325			7,229,127
Non-current						
Bank loans — unsecured	**–**	**–**	**–**	4.76	2013	500,000
Bank loans — unsecured	**–**	**–**	**–**	Libor+3.8	2014	630,090
			–			1,130,090
			9,303,325			8,359,217

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**18,429,893**	11,876,448	**9,303,325**	7,229,127
In the second year	**12,571**	506,301	**–**	500,000
In the third to fifth years, inclusive	**977,419**	6,434,401	**–**	630,090
	19,419,883	18,817,150	**9,303,325**	8,359,217

Notes:

Except for bank loans of approximately RMB4,127,020,000 (2011: RMB7,003,697,000) which are denominated in Renminbi, all the Group's and the Company's borrowings are in United States dollars and other foreign currencies.

Except for bank loans with a carrying amount of RMB6,204,308,000 (2011: RMB4,291,197,000), all borrowings of the Group bear interest at floating interest rates.

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34. INTEREST-BEARING BANK BORROWINGS (continued)

The Group's and the Company's secured bank loans and banking facilities are secured by:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Real estate properties	**—**	6,800	**—**	—
Machinery equipment	**225,208**	91,395	**—**	—
Land use right	**24,171**	3,681	**—**	—
Construction in progress	**683,394**	—	**—**	—
Pledged bank deposits	**4,132,521**	1,630,080	**—**	1,248,110
Trade receivables	**950,000**	1,105,174	**—**	—
Bill receivable	**617,229**	1,015,380	**—**	
	6,632,523	3,852,510	**—**	1,248,110

Certain of the Group's bank loans are guaranteed by:

	Group	
	2012	2011
	RMB'000	RMB'000
Entities within the Group	**5,583,110**	5,567,145

The carrying amounts of the Group's and the Company's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

ZTE (H.K.) Limited ("ZTE HK"), a subsidiary of the Company, entered into a syndicated loan agreement ("Loan Agreement") with an aggregate amount of USD900 million with 10 international banks, including Bank of China (Hong Kong) Limited, in 2011. The loans were guaranteed by the Company. Balances and outstanding terms of the loans as at the end of the current year are set out as follows:

	Drawdown date	Due date	Currency	Interest rate (%)	31 December 2012 Foreign currency	31 December 2012 RMB equivalent	31 December 2011 Foreign currency	31 December 2011 RMB equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approx. 3%	444,829	2,795,973	438,418	2,762,428
Bank of China	2011.7.20	2014.7.20	USD	Approx. 2%	350,327	2,201,980	345,467	2,176,751
Bank of China	2011.8.15	2014.8.15	USD	Approx. 2%	100,051	628,871	98,663	621,665

As at the end of the reporting period, the Group did not comply with the requirement of the Loan Agreement in respect of one financial benchmark, so the balance of long-term bank borrowing was reclassified to short-term. ZTE HK has applied to the lending bank for exemption from early loan repayment, and such application for exemption will take effect when the approval of no less than 2/3 of the amount of syndicate loan facility is granted. As at 27 March 2013, approval has been obtained in respect of 58% of the loan facility amount. The Company is of the view that the matter will not have any significant impact of the Group's operations.

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35. BONDS CUM WARRNTS

	RMB'000
Nominal value of bonds cum warrants issued in the year	4,000,000
Equity component	(580,210)
Direct transaction costs	(38,556)
At the issuance date	3,381,234

	2012	2011
	RMB'000	RMB'000
Carrying amount at 1 January	**3,884,198**	3,755,790
Interest expense (note 7)	**165,936**	160,408
Interest paid	**(32,000)**	(32,000)
Carrying amount at 31 December	**4,018,134**	3,884,198
Current Liability	**(4,018,134)**	—
Non-current Liability	**—**	3,884,198

On 30 January 2008, the Company issued 40,000,000 bonds cum warrants with a nominal value of RMB100 each, amounting to RMB4 billion in total. The bonds and warrants are listed on the Shenzhen Stock Exchange. The bonds are guaranteed by China Development Bank, and have a maturity of five years from the date of issuance. Each bond entitles its subscriber to an unconditional issue of 1.63 warrants, and 65,200,000 warrants are issuable in aggregate. The detachable warrants are valid for 24 months from the date of listing, conferring rights to subscribe for one A share at an exercise price of RMB78.13 for every two warrants held. Since the dividend payment and the completion of the capitalisation issue during the years 2008 and 2009, the exercise price of the warrants has been adjusted to RMB42.394 and the holders of the warrants are entitled to subscribe for 0.922 A share for every warrant held.

The bonds bear interest at a rate of 0.8% per annum payable in arrears on 30 January each year.

The fair value of the liability component was estimated at the issue date using a market interest rate for an equivalent bond without the detachable warrants. The residual amount was allocated to the detachable warrants that was assigned as the equity component and is included in shareholders' equity.

The exercise period of the warrants attached to the bonds of the Company expired on 12 February 2010, a total of 23,348,590 warrants were exercised, accounting for 35.81% of the total number of the warrants prior to the exercise. A total of 41,851,410 warrants were not exercised and lapsed.

The carrying amount of the liability component approximates to its fair value. The fair value of the liability component is estimated using an equivalent market interest rate for a similar bond. Since the bonds cum warrants will mature in January 2013, the balance of the liability component was classified as current liabilities as at 31 December 2012. The bonds cum warrants as at 31 December 2012 were fully repaid on 30 January 2013.

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36. BONDS PAYABLE

31 December 2012	Opening balance RMB'000	Increase during the year RMB'000	Decrease during the year RMB'000	Closing balance RMB'000
Bonds cum warrants (note 35)	**3,884,198**	**165,936**	**(4,050,134)**	**—**
Bonds payable#	**—**	**6,107,993**	**—**	**6,107,993**
	3,884,198	**6,273,929**	**(4,050,134)**	**6,107,993**
31 December 2011				
Bonds cum Warrants (note 35)	3,755,790	160,408	(32,000)	3,884,198

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

The net book value of the bonds payable at the issue date was set out as follows:

	2012 RMB'000
Nominal value of bonds payable issued in the year	**6,000,000**
Direct transaction costs	**(34,788)**
Net book value at issue date	**5,965,212**
Carrying amount at 1 January	**—**
Increase during the year	**5,965,212**
Interest expense (note 7)	**142,781**
Carrying amount at 31 December	**6,107,993**

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37. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted as at 31 December 2012 in accordance with HKAS 19 Employee Benefits. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

The benefit obligations recognised in the statement of financial position are as follows:

Group and Company

	2012 **RMB'000**	2011 RMB'000
Present value of the obligations	**99,932**	96,631
Unrecognised actuarial losses	**(45,891)**	(47,915)
Net liability in the statement of financial position	**54,041**	48,716

Movements in the net liability recognised in the statement of financial position during the year are as follows:

	2012 **RMB'000**	2011 RMB'000
Net liability at beginning of year	**48,716**	43,332
Benefit expenses recognised in profit or loss	**6,314**	6,352
Pension payments made	**(989)**	(968)
Net liability at end of year	**54,041**	48,716

The principal assumptions used in determining the pension benefit obligations are shown below:

	2012 **RMB'000**	2011 RMB'000
(a) Discount rate	**4.25%**	4.00%

(b) The expected rates of increase in salaries ranged from 7.3% to 10.2% per annum, which were based on the number of years of employment.

The benefit expenses recognised in profit or loss for the year are as follows:

	2012 **RMB'000**	2011 RMB'000
Interest cost on benefit obligations	**3,845**	3,735
Net actuarial losses recognised in the year	**2,469**	2,617
Benefit expense included in staff costs (note 6)	**6,314**	6,352

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38. OTHER LONG-TERM PAYABLES

Group

	2012 RMB'000	2011 RMB'000
Factoring costs payable	341,719	377,059
Deferred income for staff housing scheme	182,086	192,833
	523,805	569,892

39. PROVISION FOR WARRANTIES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
At beginning of year	347,610	215,076	209,246	77,606
Additional provision	303,007	516,152	208,253	437,517
Amounts utilised during the year	(403,925)	(383,618)	(289,694)	(305,877)
At end of year	246,692	347,610	127,805	209,246

In respect of handsets, the Group and the Company generally provide a one-year warranty to their customers under which faulty products will be repaired or replaced. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

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40. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets and liabilities:				
At beginning of year	**1,128,836**	566,078	**622,619**	381,368
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**89,769**	562,758	**(41,112)**	241,251
Deferred tax credited to other comprehensive income	**(139,900)**	—	**(138,400)**	—
At end of year	**1,078,705**	1,128,836	**443,107**	622,619

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Unrealised profits arising on consolidation	**148,805**	90,557	**—**	—
Provision against inventories	**109,550**	86,465	**30,173**	25,772
Foreseeable contract losses	**2,640**	10,265	**2,640**	10,265
Amortisation of intangible assets	**60,990**	36,913	**16,694**	11,335
Provision for warranties	**28,101**	51,904	**23,954**	36,170
Provision for retirement benefits	**8,902**	8,108	**8,106**	7,307
Undeducted payables	**171,683**	141,816	**—**	—
Tax losses	**499,344**	482,340	**311,350**	311,350
Overseas tax	**188,590**	220,468	**188,590**	220,420
	1,218,605	1,128,836	**581,507**	622,619
Deferred tax liabilities:				
Revaluation gain of owner-occupied properties	**(139,900)**	—	**(138,400)**	—
	1,078,705	1,128,836	**443,107**	622,619

Deferred tax assets have not been recognised in respect of the following item:

	2012	2011
	RMB'000	RMB'000
Tax losses	**7,927,125**	1,784,749

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40. DEFERRED TAX (continued)

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2012	2011
	RMB'000	RMB'000
2012	**–**	9,375
2013	**2,188**	2,091
2014	**20,328**	19,429
After 2014	**7,904,609**	1,753,854
	7,927,125	1,784,749

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its Implementation Regulations, effective from 1 January 2008, a 10% withholding income tax is payable by a foreign investor in respect of dividend income derived from the profit generated by its Mainland China subsidiaries after 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Accordingly, ZTE HK, a subsidiary of the Group deemed a foreign investor incorporated in Hong Kong, may recognise a deferred tax liability in respect of the net profit generated by its Mainland China subsidiaries after 1 January 2008 and attributable to the foreign investor, regardless of whether such Mainland China subsidiaries had declared any distribution of such profit as at the end of the reporting period.

As at 31 December 2012, the Group had not recognised any deferred tax liability in respect of tax obligations arising from the future distribution of undistributed profits of such subsidiaries, as the Group was exercising control over the dividend policy of such subsidiaries and was in the opinion that it is not probable such subsidiaries will distribute the profits generated during the relevant period in the foreseeable future. As at 31 December 2012, the total amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB104,975,000 (2011: RMB695,306,000).

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41. ISSUED CAPITAL

	2012 RMB'000	2011 RMB'000
Restricted shares		
Domestic natural person shares	**2,537**	9,126
Senior management shares	**8,724**	8,330
	11,261	17,456
Unrestricted shares		
RMB ordinary shares	**2,799,232**	2,793,037
Overseas listed foreign shares	**629,585**	629,585
	3,428,817	3,422,622
	3,440,078	3,440,078

42. SHARE INCENTIVE SCHEME

The implementation of the Phase I Share Incentive Scheme (Revised Version dated 5 February 2007) (hereinafter referred to as the "Share Incentive Scheme") commenced upon consideration and approval by shareholders at the first extraordinary general meeting of the Company for 2007 convened on 13 March 2007, after the receipt of a no-comment letter from the China Securities Regulatory Commission (the "CSRC"). The Company granted 47,980,000 subject shares to the scheme participants by way of the issue of new shares (A shares), including the grant to 3,435 scheme participants of the subject share quotas with 43,182,000 shares (accounting for 90% of the subject share quotas under the Share Incentive Scheme, hereinafter referred to as the "First Award") and the reservation of 4,798,000 subject shares accounting for 10% of the subject share quotas under the Share Incentive Scheme. At the Twentieth Meeting of the Fourth Session of the Board of Directors held on 25 November 2008, the grant of the full amount of the reserved subject share quotas to 794 scheme participants (hereinafter referred to as the "Second Award") was considered and approved. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company and its subsidiaries.

The grant price of the Share Incentive Scheme shall be the closing price of the Company's A shares as quoted on the Shenzhen Stock Exchange on the trading day immediately preceding the date of the Board Meeting at which the Share Incentive Scheme is reviewed. The price of the First Award was RMB30.05 per share. Scheme participants shall pay the subscription amounts for the subject shares on the basis of the purchase of 5.2 subject shares for every 10 subject shares granted, out of which the subscription amounts for 3.8 subject shares shall be funded by scheme participants at their own cost and the subscription amounts for 1.4 subject shares shall be funded by the conversion of the deferred bonus that scheme participants would have received had they participated in the distribution of 2006 deferred bonus, calculated as a percentage of the grant price. The price of the Second Award was RMB21.28 per share. Scheme participants shall pay the subscription amounts for the subject shares on the basis of the purchase of 5.2 subject shares for every 10 subject shares granted.

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42. SHARE INCENTIVE SCHEME (continued)

The Share Incentive Scheme shall be valid for five years, comprising a lock-up period of two years and an unlocking period of three years:

(1) The Lock-up Period shall last for a period of two years commencing on the date of approval of the Share Incentive Scheme by shareholders in a general meeting of the Company, during which the subject shares granted to scheme participants under the Share Incentive Scheme shall be subject to lock-up and shall not be transferable;

(2) The Unlocking Period shall last for three years following the expiry of the Lock-up Period, during which scheme participants may, subject to unlocking conditions stipulated by the Share Incentive Scheme being satisfied, apply for unlocking in three tranches: the first unlocking period shall be the first year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 20% of the aggregate number of subject shares granted; the second unlocking period shall be the second year following the expiry of the Lock-up Period and the number of shares to be unlocked shall not exceed 35% of the aggregate number of subject shares granted; the third unlocking period shall be the third year following the expiry of the Lock-up Period and the number of shares to be unlocked shall represent all outstanding subject shares.

The unlocking of subject shares shall be conditional upon the simultaneous fulfilment of certain conditions, including but not limited to the following:

(1) The Company's financial and accounting report for the most recent accounting year does not contain an audit report in which the certified public accountants indicate an opinion of disapproval or inability to express any opinion;

(2) The scheme participants have not been subject to administrative penalties by the CSRC due to material non-compliance by the Company during the past three years;

(3) The weighted average rates of return on net assets of the company for the years 2007, 2008 and 2009 shall be adopted as the results appraisal conditions to Scheme Participants' application for unlocking the subject shares in the first, second and third tranches, respectively. Such rates of return on net assets shall not be less than 10% (before or after extraordinary income/loss items, whichever is lower).

In accordance with the relevant terms of the Share Incentive Scheme, subject shares granted but which have lapsed in the absence of unlocking shall be repurchased and cancelled by the Company at the corresponding subscription amounts plus interest calculated at the prevailing call deposit interest rate published by the People's Bank of China.

The fair value of the subject shares was arrived at based on the market price of the Company's shares on the date of grant using the Black-Scholes model, which ranged from RMB21.28 to RMB36.81 per share. The aggregate fair value of the subject shares amounting to RMB1,106,794,000 is charged to profit or loss and the Share Incentive Scheme Reserve as costs and expenses from the date of grant to the date on which the unlocking conditions are being fulfilled and the shares may be circulated according to the law. The Group has recognised an amount of RMB6,722,000 (2011: RMB41,821,000) as the Share Incentive Scheme expenses for the year and an aggregate amount of RMB1,106,794,000 (2011: RMB1,100,071,000) has been recognised in expenses as at the end of the year on an accumulative basis.

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42. SHARE INCENTIVE SCHEME (continued)

The proposals of profit distribution and capitalisation from capital reserve for 2007 were implemented on 10 July 2008, whereby 4 shares were issued for every 10 shares held. The proposals of profit distribution and capitalisation from capital reserve for 2008 were implemented on 4 June 2009, whereby 3 shares were issued for every 10 shares held. As a result, the subject share quotas of the Share Incentive Scheme were adjusted to 87,323,600 shares accordingly, representing the adjustments of the subject share quotas under the First Award and the Second Award to 78,591,240 shares and 8,732,360 shares, respectively. Taking into consideration the departure of or waiver of participation in the Share Incentive Scheme by certain scheme participants, it was ratified at the Twenty-sixth Meeting of the Fourth Session of the Board of Directors of the Company held on 6 July 2009 that a total subject share quota of 85,050,238 shares had been granted to 4,022 scheme participants under the Share Incentive Scheme, and the registration of such shares with China Securities Depository and Clearing Company Limited, Shenzhen Branch was completed in July 2009. The total number of issued share capital of the Company has increased by 85,006,813 shares, after deducting 43,425 subject shares which have lapsed.

In accordance with the Share Incentive Scheme, subject shares under the First Award and the Second Award shall be subject to a lock-up period of two years. As at 12 March 2009 and 25 November 2010, the lock-up period for subject shares under the First Award and the Second Award had expired and the unlocking conditions had been fulfilled. As at 31 December 2012, the unlocking of all subject shares under the Phase I Share Incentive Scheme of the Company meeting the conditions for unlocking had been completed. For details of the unlocking, please refer to note 44.

43. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 317 and 318 of the financial statements.

The capital reserve of the Group includes the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate a certain percentage of the statutory profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issue by way of paid-up capital. The fund cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Share Incentive Scheme reserve was created for the Share Incentive Scheme launched by the Company that provides incentives and rewards to certain employees of the Company and its subsidiaries.

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43. RESERVES (continued)

(b) Company

	Notes	Issued capital	Capital reserve	Equity component of bonds cum warrants	Share incentive scheme reserve	Shares subject to lock-up under the Share Incentive Scheme	Statutory reserves	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010 and 1 January 2011		2,866,732	8,594,212	–	462,220	(276,266)	875,295	(15,413)	1,513,698	841,297	14,861,775
Final 2010 dividend declared		–	–	–	–	–	–	–	–	(841,297)	(841,297)
Total comprehensive income for the year		–	–	–	–	–	–	(936)	519,110	–	518,174
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(686,190)	686,190	–
Share Incentive Scheme:	42										
– Equity- settled share expense		–	–	–	41,821	–	–	–	–	–	41,821
– Unlocking the lock-up shares		–	491,539	–	(491,539)	235,729	–	–	–	–	235,729
Transfer from capital reserve		573,346	(573,346)	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	50,379	–	(50,379)	–	–
At 31 December 2011 and 1 January 2012		3,440,078	8,512,405	–	12,502	(40,537)	925,674	(16,349)	1,296,239	686,190	14,816,202
Final 2011 dividend declared		–	–	–	–	–	–	–	–	(686,190)	(686,190)
Total comprehensive income for the year	11	–	–	–	–	–	–	(789)	(1,474,442)	–	(1,475,231)
Share Incentive Scheme:	42										
– Equity-settled share expense		–	–	–	6,722	–	–	–	–	–	6,722
– Unlocking the lock-up shares		–	19,224	–	(19,224)	40,537	–	–	–	–	40,537
Transfer from capital reserve	41	–	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	–	–	–	–	–	–
Revaluation gain upon transfer from owner occupied properties to investment properties, net of tax		–	784,264	–	–	–	–	–	–	–	784,264
Others		–	7,000	–	–	–	–	–	–	–	7,000
At 31 December 2012		3,440,078	9,322,893	–	–	–	925,674	(17,138)	(178,203)	–	13,493,304

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44. SHARES SUBJECT TO LOCK-UP UNDER THE SHARE INCENTIVE SCHEME

In July 2009, all of the 85,006,813 subject shares under the Share Incentive Scheme of the Company were registered as share capital on a one-off basis. Unlocking conditions in respect of 15,269,290 shares, being 20% of the First Award had been fulfilled and 14,559,708 shares were listed on 23 July 2009.

Unlocking conditions in respect of 35% of the First Award had been fulfilled and 26,452,094 shares were listed on 4 June 2010. The proposals of profit distribution and capitalisation from capital reserve for 2009 were implemented on 24 June 2010, whereby five shares were issued for every 10 shares held. As a result, registered subject shares for which unlocking conditions had not been fulfilled were adjusted to 64,928,143 shares accordingly. Unlocking conditions in respect of 20% of the Second Award had been fulfilled and 2,520,957 shares were listed on 15 December 2010.

The proposals of profit distribution and capitalisation from capital reserve for 2010 were implemented on 7 July 2011, whereby two shares were issued for every 10 shares held. As a result, registered subject shares for which unlocking conditions had not been fulfilled were adjusted to 74,888,624 shares accordingly. Unlocking conditions in respect of 45% of the First Award had been fulfilled and 60,532,063 shares were listed on 21 July 2011. Unlocking conditions in respect of 35% of the Second Award had been fulfilled and 5,230,667 shares were listed on 29 December 2011. After deducting the subject shares under the unlocking, there were 9,125,893 registered subject shares for which unlocking conditions had not been fulfilled as at 31 December 2011, among which 2,251,699 subject shares would be lapsed.

As at 31 December 2012, the unlocking of all subject shares under the Phase I Share Incentive Scheme of the Company meeting the conditions for unlocking had been completed. Of the subject shares registered, a total of 2,536,742 subject shares lapsed owing to the departure of employees or failure to meet unlocking conditions relating to results appraisal. Subscription amounts paid by scheme participants in respect of the lapsed shares had been refunded to such scheme participants by the Company in accordance with relevant terms of the Share Incentive Scheme.

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45. TRANSFERS OF FINANCIAL ASSETS

Bills receivable

Financial assets that are derecognised in their entirety

Bills discount

At 31 December 2012, certain bills receivable were discounted by banks in the PRC (the “Discounted Bills”) with a carrying amount of RMB1,965,274,000. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Discounted Bills. The maximum exposure to loss from the Group’s continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s continuing involvement in the Discounted Bills are not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Discounted Bills (2011:Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Trade receivables factoring

As part of its normal business, the Group entered into some trade receivables factoring arrangements (the “Arrangements”) and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them were derecognized in their entirety but for which the Group retains continuing involvement.

Transferred trade receivables that are not derecognised in their entirety

According to some factoring arrangements, the Group is exposed to default risks of the trade debtors after the transfer and accordingly, it continued to recognise the full carrying amounts of the trade receivables The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2012 amounted to RMB6,412,550,000.

Transferred financial assets that are derecognised in their entirety but for which the Company retains continuing involvement

According to some factoring arrangements, the Group may be required to reimburse the banks for loss of a certain proportion of principal ranging from 0% to 25% if any trade debtors default and to reimburse interest if any trade debtors have late payment up to 180 days. The Group is not exposed to significant default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2012 amounted to RMB12,619,599,000. The continuing involvement and associated liabilities are summarized as follows:

	RMB’000
Carrying amount of assets that continue to be recognised	1,771,448
Carrying amount of liabilities that continue to be recognised	1,774,866

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46. DISPOSAL OF SUBSIDIARIES

	Note	2012 RMB'000 Shenzhen Changfei Investment Company Limited	2012 RMB'000 Shenzhen ZTE Special Equipment Company Limited	2012 RMB'000 Zhongxing Hetai	2012 RMB'000 Total
Net assets disposed of:					
Current assets		3,192,851	226,406	69,140	3,488,397
Non-current assets		499,649	60,315	4,796	564,760
Current liabilities		(2,783,982)	(101,709)	(43,182)	(2,928,873)
Non-current liabilities		(81,256)	—	—	(81,256)
Non-controlling interests		(324,696)	(60,164)	—	(384,860)
Fair value of the equity interest retained after disposal		—	—	(5,582)	(5,582)
Gain on disposal of subsidiaries	6	757,836	436,404	2	1,194,242
		1,260,402	561,252	25,174	1,846,828
Satisfied by:					
Cash		888,000	528,360	25,174	1,441,534
Fair value of forward contracts		5,046	—	—	5,046
Other receivables		384,104	32,892	—	416,996
Assumed liabilities		(16,748)	—	—	(16,748)
		1,260,402	561,252	25,174	1,846,828

An analysis of the net cash flow in respect of the disposal of subsidiaries is as follows:

	2012 RMB'000 Shenzhen Changfei Investment Company Limited	2012 RMB'000 Shenzhen ZTE Special Equipment Company Limited	2012 RMB'000 Zhongxing Hetai	2012 RMB'000 Total
Cash consideration	888,000	528,360	25,174	1,441,534
Cash and bank balances disposed of	(281,315)	(134,142)	(36,892)	(452,349)
Net cash flow In respect of the disposal of subsidiaries	606,685	394,218	(11,718)	989,185

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47. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Guarantees given to banks in connection with borrowing to customers	**65,179**	65,213
Guarantees given to banks in respect of performance bonds	**7,814,811**	9,752,558
	7,879,990	9,817,771

(b) In August 2006, a customer instituted arbitration against the Company and demanded compensation in the amount of PKR762.98 million (equivalent to approximately RMB49,975,200). Meanwhile, the Company instituted a counterclaim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an compensation of PKR328.04 million (equivalent to approximately RMB21,487,000) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a counter-claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

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

(c) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court, pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24.912 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 appeal at the Intermediate Court.

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47. CONTINGENT LIABILITIES (continued)

(c) (continued)

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

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate People's Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate People's Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Provincial Higher People's Court against the said judgement.

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

(d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract which otherwise should have been secured as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, 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 with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case. The Company has submitted its defense in response thereto.

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

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47. CONTINGENT LIABILITIES (continued)

(e) On 5 April 2011, a carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. The legal counsel engaged by the Company has submitted a defence in a timely manner to deny all allegations made by the carrier.

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

(f) On 9 December 2011, the Company and ZTE USA received a petition for arbitration filed by four USA companies and a natural person (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 defence and a counter-claim with ICDR, alleging that CLEARTALK had committed breach of contract, fraud and abuse of litigation rights and had seriously compromised the interests of the Company. Under the mediation of the arbitrator, the two parties agreed to reschedule the date of arbitration to 1 April 2013, while the location of arbitration would remain Jacksonville, Florida. As the arbitration procedures of the United States do not provide for any limit on the amount compensation demanded by an applicant, the final amount of compensation demanded in this case will not be confirmed until the arbitration tribunal opens.

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

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47. CONTINGENT LIABILITIES (continued)

(g) On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (equivalent to approximately RMB224 million).

On 20 January 2012, ZTE Brazil submitted an administrative defence to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provided that the agreement should apply to ICMS tax incurred prior to May 2009, ZTE Brazil was not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgement of the primary trial of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 29 November 2012, the tax bureau of Sao Paulo State issued a notice that ZTE Brazil had paid the ICMS or made a remedial payment thereof and recommended suspension of execution of the notice of administrative penalty. The case is pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

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

(h) In November 2012, ZTE Brazil, a wholly-owned subsidiary of the Company, filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB93,951,400). On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB249 million). The Company has appointed an external legal counsel to conduct active defence in respect of the said case.

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

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47. CONTINGENT LIABILITIES (continued)

(i) On 29 July 2011 and 2 January 2013, 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 3G patent rights. Defendants in this 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 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. For the case filed in 2011, the litigation procedure at the District Court has been temporarily suspended. The Company has appointed an external legal counsel to conduct active defence in respect of the said case. As of now, there has been no substantial progress of the case.

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

(j) In May 2012, a U.S. company filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been temporarily suspended. The Company has appointed an external legal counsel to conduct active defence in respect of the said case. As of now, there has been no substantial progress of the case.

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

(k) In July 2012, a U.S. company filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order that would prevent the Company's products that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been temporarily suspended. The Company has appointed an external legal counsel to conduct active defence in respect of the said case. As of now, there has been no substantial progress of the case.

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

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48. FINANCIAL GUARANTEE CONTRACT

The Group has provided a financial guarantee which will expire in September 2018 for an independent customer with a maximum amount of RMB50,000,000 including corresponding interest.

In accordance with HKAS 39, this financial guarantee contract is accounted for as a financial liability and subsequently measured at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

49. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 34 to the financial statements.

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2014. During the year, approximately RMB159,055,000 (2011: RMB89,219,000) of operating lease rental income has been recognised under this arrangement.

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 50 years.

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**432,442**	359,270	**209,174**	133,920
In the second to fifth years, inclusive	**877,456**	1,163,828	**386,075**	448,030
After five years	**114,104**	298,500	**46,258**	129,986
	1,424,002	1,821,598	**641,507**	711,936

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51. COMMITMENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**484,417**	836,989	**69,323**	256,197
Investments in associates	**41,712**	945	**—**	—
	526,129	837,934	**69,323**	256,197
Authorised, but not contracted for:				
Land and buildings	**21,600,404**	21,752,024	**—**	5,859,000

52. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

	Notes	**2012** **RMB'000**	2011 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	**235,557**	355,172
Sales of finished goods	(b)	**2,910**	2,444
Rental expense	(c)	**8,827**	8,827
Associates:			
Purchase of raw materials	(a)	**245,382**	378,906
Sales of finished goods	(b)	**7,337**	13,284
Rental income	(e)	**4,040**	273
Interest expense	(f)	**44**	—
Interest income	(f)	**9,705**	—
Jointly-controlled entities:			
Sales of finished goods	(b)	**125,836**	318,490
Entities significantly influenced by key management personnel of the Group:			
Purchase of raw materials	(a)	**278,106**	274,070
Sales of finished goods	(b)	**19,747**	66,582
Rental expense	(d)	**50,676**	47,066
Rental income	(e)	**1,696**	1,802
Entities controlled by the controlling shareholder:			
Purchase of raw materials	(a)	**296,322**	179,033
Sales of finished goods	(b)	**950**	671
The substantial shareholder of the controlling shareholder:			
Purchase of raw materials	(a)	**2,634**	1,701
Sales of finished goods	(b)	**—**	4
Rental income	(e)	**17**	64

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52. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Notes:

(a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the suppliers to their major customers.

(b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at rates of RMB40 per square metre and RMB200 per car parking space.

(d) The rental expense was charged at rates ranging from RMB12 to RMB115 per square metre.

(e) The rental income was earned from RMB75 to RMB102 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 Peoples' Bank of China.

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
The controlling shareholder	2,942	—	—
Entities significantly influenced by key management personnel of the Group	62,648	62,200	14,817

(ii) A subsidiary of the Group entered into a series of agreements with related parties to purchase raw materials for the Group's future production. The maximum amount of total purchases from related parties in the following year was expected as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
The controlling shareholder	900,000	1,000,000	1,100,000
Associates	78,000	—	—
An entity significantly influenced by key management personnel of the Group	678,000	800,000	900,000

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52. RELATED PARTY TRANSACTIONS (continued)

(II) Commitments with related parties (continued)

(iii) The Group leases certain of its office premises to related parties under non-cancellable operating lease arrangements. The Group expected the lease receivables from related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
Associates	23,000	—	—
Entities significantly influenced by key management personnel of the Group	51,012	50,906	50,800

(III) Outstanding balances with related parties:

(i) Details of the Group's trade balances with the controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 26 and 32 to the financial statements.

(ii) Details of the Group's balances of receivables and payables which are not trade in nature with the controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 28 and 33 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	**8,891**	23,486
Post-employment benefits	**381**	370
Equity-settled share expense	**—**	1,174
Total compensation paid to key management personnel	**9,272**	25,030

The related party transactions in respect of purchases of raw materials amounting to approximately RMB511 million (2011: RMB530 million) and rental expenses amounting to approximately RMB37 million (2011: RMB46 million) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. For details, please refer to the section of the Annual Report headed "Material Matters (X) Significant Connected Transactions of the Group (2) Continuing Connected Transactions under the Hong Kong Listing Rules".

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53. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012	Group			
Financial assets	**Financial assets at fair value through profit or loss RMB'000**	**Loans and receivables RMB'000**	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	—	—	1,092,335	1,092,335
Trade and bills receivables/long-term trade receivables	—	27,557,038	—	27,557,038
Factored trade receivables/factored long-term trade receivables	—	8,183,998	—	8,183,998
Financial assets included in prepayments, deposits and other receivables	—	2,248,685	—	2,248,685
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Pledged deposits	—	4,537,257	—	4,537,257
Time deposits with original maturity of over three months	—	86,608	—	86,608
Cash and cash equivalents	—	22,659,635	—	22,659,635
Derivative financial instruments	61,378	—	—	61,378
	106,297	65,273,221	1,092,335	66,471,853

2012	Group				
Financial liabilities	**Financial liabilities at fair value through profit or loss RMB'000**	**Financial liabilities at amortised cost RMB'000**	**Derivatives designated as hedging instruments in effective hedges RMB'000**	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables	—	29,593,979	—	—	29,593,979
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	8,187,416	—	—	8,187,416
Financial liabilities included in other payables and accruals	—	7,588,089	—	—	7,588,089
Interest-bearing bank borrowings	—	19,419,883	—	—	19,419,883
Financial guarantee contract	—	—	—	3,689	3,689
Bonds cum warrants	—	4,018,134	—	—	4,018,134
Bonds payable	—	6,107,993	—	—	6,107,993
Factoring costs payable	—	341,719	—	—	341,719
Derivative financial instruments	99,630	—	16,856	—	116,486
	99,630	75,257,213	16,856	3,689	75,377,388

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53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011	Group			
Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	819,972	819,972
Trade and bills receivables/long-term trade receivables	—	27,961,228	—	27,961,228
Factored trade receivables/factored long-term trade receivables	—	7,779,179	—	7,779,179
Financial assets included in prepayments, deposits and other receivables	—	2,117,200	—	2,117,200
Equity investment at fair value through profit or loss	87,180	—	—	87,180
Pledged deposits	—	1,674,544	—	1,674,544
Time deposits with original maturity of over three months	—	85,000	—	85,000
Cash and cash equivalents	—	20,662,089	—	20,662,089
Derivative financial instruments	8,438	—	—	8,438
	95,618	60,279,240	819,972	61,194,830

2011 Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	—	32,692,252	—	—	32,692,252
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	7,945,814	—	—	7,945,814
Financial liabilities included in other payables and accruals	—	6,779,229	—	—	6,779,229
Interest-bearing bank borrowings	—	18,817,150	—	—	18,817,150
Financial guarantee contract	—	—	—	3,689	3,689
Bonds cum warrants	—	3,884,198	—	—	3,884,198
Factoring costs payable	—	377,059	—	—	377,059
Derivative financial instruments	2,433	—	4,120	—	6,553
	2,433	70,495,702	4,120	3,689	70,505,944

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53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012	Company			
Financial assets	**Financial assets at fair value through profit or loss RMB'000**	**Loans and receivables RMB'000**	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	–	–	323,655	323,655
Trade and bills receivables/long-term trade receivables	–	39,932,448	–	39,932,448
Factored trade receivables/factored long-term trade receivables	–	7,127,964	–	7,127,964
Financial assets included in prepayments, deposits and other receivables	–	6,596,728	–	6,596,728
Equity investment at fair value through profit or loss	44,919	–	–	44,919
Derivative financial instruments	9,389	–	–	9,389
Pledged deposits	–	3,891,146	–	3,891,146
Cash and cash equivalents	–	15,276,437	–	15,276,437
	54,308	72,824,723	323,655	73,202,686

2012	Company		
Financial liabilities	**Financial liabilities at amortised cost RMB'000**	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables	47,661,655	–	47,661,655
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	7,131,382	–	7,131,382
Financial liabilities included in other payables and accruals	18,556,665	–	18,556,665
Interest-bearing bank borrowings	9,303,325	–	9,303,325
Financial guarantee contract	–	3,689	3,689
Bonds cum warrants	4,018,134	–	4,018,134
Bonds payable	6,107,993	–	6,107,993
Factoring costs payable	341,719	–	341,719
Derivative financial instruments	42,325	–	42,325
	93,163,198	3,689	93,166,887

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53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011	Company			
Financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	—	212,448	212,448
Trade and bills receivables/long-term trade receivables	—	36,898,071	—	36,898,071
Factored trade receivables/factored long-term trade receivables	—	7,366,330	—	7,366,330
Financial assets included in prepayments, deposits and other receivables	—	3,477,706	—	3,477,706
Equity investment at fair value through profit or loss	87,180	—	—	87,180
Pledged deposits	—	1,248,110	—	1,248,110
Cash and cash equivalents	—	13,276,734	—	13,276,734
	87,180	62,266,951	212,448	62,566,579

2011	Company		
Financial liabilities	Financial liabilities at amortised cost	Other financial liabilities	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	43,901,916	—	43,901,916
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	7,532,965	—	7,532,965
Financial liabilities included in other payables and accruals	19,706,782	—	19,706,782
Interest-bearing bank borrowings	8,359,217	—	8,359,217
Financial guarantee contract	—	3,689	3,689
Bonds cum warrants	3,884,198	—	3,884,198
Factoring costs payable	377,059	—	377,059
	83,762,137	3,689	83,765,826

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54. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of pledged deposits, trade receivables, deposits and other receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for a similar convertible bond.

The fair value of a listed equity investment is based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

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54. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Assets measured at fair value:

Group
As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	38,420	—	—	38,420
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Derivative financial instruments	—	61,378	—	61,378
	83,339	61,378	—	144,717

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Equity investment at fair value through profit or loss	87,180	—	—	87,180
Derivative financial instruments	—	8,438	—	8,438
	87,180	8,438	—	95,618

Company
As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Equity investment at fair value through profit or loss	44,919	—	—	44,919
Derivative financial instruments	—	9,389	—	9,389
	44,919	9,389	—	54,308

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Equity investment at fair value through profit or loss	87,180	—	—	87,180
	87,180	—	—	87,180

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 (2011: Nil).

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54. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Liabilities measured at fair value:

Group
As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	**—**	**(116,486)**	**—**	**(116,486)**
	—	**(116,486)**	**—**	**(116,486)**

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	—	(6,553)	—	(6,553)
	—	(6,553)	—	(6,553)

Company
As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	**—**	**(42,325)**	**—**	**(42,325)**
	—	**(42,325)**	**—**	**(42,325)**

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into derivative transactions to manage the interest rate and currency risks arising from the Group's operations and its sources of finance, but is forbidden to engage in speculative activities for profit-making. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

At 31 December 2012, the bank loans of the Group and the Company included fixed and variable rate debts.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

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55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As the Group borrowed a USD900 million floating interest loan, the Group entered into and will enter into interest rate swaps with a nominal principal amount of not more than USD900 million at an appropriate timing, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notion al principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2012, after taking into account the effect of the interest rate swaps, approximately 32% (2011: 26%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2012	**0.25%**	**(31,593)**	**5,764**
	(0.25%)	**31,593**	**(5,764)**
2011	0.25%	(34,740)	7,031
	(0.25%)	34,740	(7,031)

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD, EUR and a certain portion of the bank loans is denominated in USD. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes a rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

Notes to Financial Statements

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55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There would be no change in other components of equity.

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in profit before tax RMB'000**
2012		
If RMB weakens against USD	**3%**	**31,570**
If RMB strengthens against USD	**(3%)**	**(31,570)**
If RMB weakens against EUR	**5%**	**155,594**
If RMB strengthens against EUR	**(5%)**	**(155,594)**

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2011		
If RMB weakens against USD	3%	(37,165)
If RMB strengthens against USD	(3%)	37,165
If RMB weakens against EUR	5%	210,820
If RMB strengthens against EUR	(5%)	(210,820)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and derivative investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees.

Notes to Financial Statements

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55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis, by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes. Except for the non-current portion of interest-bearing bank borrowings, all borrowings of the Group mature in less than one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2012	Group					
	On demand RMB'000	Within 1 year RMB'000	1–2 years RMB'000	2–3 years RMB'000	Over 3 Years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	18,684,521	13,290	919,466	193,458	19,810,735
Trade and bills payables	18,115,877	11,478,102	—	—	—	29,593,979
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	4,211,344	1,594,306	966,975	1,754,183	8,526,808
Other payables	7,483,733	104,356	—	—	—	7,588,089
Bonds cum warrants	—	4,018,134	—	—	—	4,018,134
Bonds payable	—	252,000	252,000	6,252,000	—	6,756,000
Factoring costs payable	—	—	89,624	75,752	260,440	425,816
Derivative financial instruments	—	—	5,471	4,062	1,320	10,853
Financial guarantee contract	68,868	—	—	—	—	68,868
	25,668,478	38,748,457	1,954,691	8,218,255	2,209,401	76,799,282

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

2011	Group					
	On demand RMB'000	Within 1 year RMB'000	1–2 years RMB'000	2–3 years RMB'000	Over 3 Years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	12,091,433	532,455	3,655,890	3,356,192	19,635,970
Trade and bills payables	21,542,885	11,149,367	—	—	—	32,692,252
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	3,789,731	2,161,907	898,008	1,806,161	8,655,807
Other payables	6,677,470	101,759	—	—	—	6,779,229
Bonds cum warrants	—	32,000	4,032,000	—	—	4,064,000
Factoring costs payable	—	—	92,538	80,700	304,113	477,351
Derivative financial instruments	—	5,298	3,465	1,835	(4,157)	6,441
Financial guarantee contract	68,902	—	—	—	—	68,902
	28,289,257	27,169,588	6,822,365	4,636,433	5,462,309	72,379,952

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which are interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Interest-bearing bank borrowings	**19,419,883**	18,817,150
Bonds cum warrants and bonds payable	**10,126,127**	3,884,198
Bank advances on factored trade receivables and long-term trade receivables	**8,187,416**	7,945,814
Total interest-bearing Liabilities	**37,733,426**	30,647,162
Total equity	**22,638,730**	26,288,775
Total equity and interest-bearing liabilities	**60,372,156**	56,935,937
Gearing ratio	**62.5%**	53.8%

56. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB205,542,000 (2011: RMB742,729,000) is by assuming directly related liabilities.

57. EVENTS AFTER THE REPORTING PERIOD

On 28 December 2012, the Company, Shenzhen ZNV Technology Co., Ltd. ("ZNV") which is a subsidiary of the Company, a wholly-owned subsidiary ZTE HK and Ocean Delight Investments Limited ("Ocean Delight") which is an independent third party, entered into an equity transfer agreement. The Company and ZTE HK have agreed to sell 81% equity interest in ZNV to Ocean Delight at a consideration of RMB1,292,000,000. On 16 January 2013, registration of changes with industrial and commercial authorities in respect of the said equity transfer was completed. As at the report date, the consideration has been fully received.

58. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

59. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

Documents Available for Inspection

(I) Text of the 2012 annual report signed by the Chairman of the Board of Directors;

(II) Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2012 prepared in accordance with the PRC ASBEs and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;

(IV) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://www.cninfo.com.cn during the year;

(V) Articles of Association.

By order of the Board

Hou Weigui
Chairman

28 March 2013

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