ZTE 中兴通讯股份有限公司

ZTE CORPORATION

2014
Annual Report

stock code：000063.SZ　763.HK

Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that 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 Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Dong Lianbo, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Xie Weiliang, Vice Chairman, to vote on his behalf. Mr. Wei Wei, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Tan Zhenhui, Independent Non-executive Director, to vote on his behalf. Mr. Chen Naiwei, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Ms. Qu Xiaohui, Independent Non-executive Director, to vote on his behalf.

The respective financial statements of the Group for the year ended 31 December 2014 were prepared in accordance with PRC Accounting Standards for Business Enterprises and with Hong Kong Financial Reporting Standards respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors' report has been issued by each of them.

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

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

In view of the state of affairs of the Company, proposal for profit distribution and conversion from capital reserve of 2014: cash dividend of RMB2.0 for every 10 shares (before tax) based on the Company's total share capital of 3,437,541,278 shares as at 31 December 2014, creation of 2 shares for every 10 shares by way of conversion of capital reserve. The aforesaid matter shall require consideration and approval at the general meeting.

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

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

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 of investment risks.

Contents

Definitions

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

Company or ZTE	ZTE Corporation, a limited company incorporated in China, 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
Accounting Law	Accounting Law of the People's Republic of China
Group	ZTE and one or more of its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
China or PRC	The People's Republic of China
ITU	International Telecommunications Union, is a specialised agency of the United Nations for information and communication technologies
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
CSRC	China Securities Regulatory Commission
Shenzhen CSRC	The CSRC Shenzhen Bureau
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
PRC ASBEs	Generally accepted accounting principles in the PRC
HKFRSs	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards ("HKASs") and Interpretations)
China All Access	China All Access (Holdings) Limited
ZTE HK	ZTE (H.K.) Limited

Speed	Huizhou Speed Wireless Technology Co., Ltd.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
Zhongxingxin	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
Mobi Antenna	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
Huatong	Huatong Technology Company Limited
Nanchang Software	Zhongxing Software Technology (Nanchang) Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
Zhongxing Development	Zhongxing Development Company Limited
Chongqing Zhongxing Development	Chongqing Zhongxing Development Company Limited
航天歐華	深圳市航天歐華科技發展有限責任公司
Xi'an Microelectronics	Xi'an Microelectronics Technology Research Institute
Aerospace Guangyu	Shenzhen Aerospace Guangyu Industrial Company Limited
Zhongxing WXT	Shenzhen Zhongxing WXT Equipment Company Limited
Zhongxing Software	Shenzhen Zhongxing Software Company Limited
ZTE Kangxun	Shenzhen ZTE Kangxun Telecom Company Limited
ZTE Group Finance	ZTE Group Finance Co., Ltd.

Glossary

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

2G	Second-generation mobile networks featuring digital wireless radio technology that enables larger network capacity, improved voice quality and more secure encryption, as well as seamless international roaming for users which includes GSM and CDMA. GSM (Global System for Mobile Communication) is a global system for cellular mobile communications originated in Europe using TDMA, while CDMA is a standard for spread spectrum technology. The data rate of 2G can reach 115.2Kbps. The data rate of GSM using EDGE (enhanced data rate for GSM evolution) can reach 384Kbps.
3G	Third-generation mobile networks supporting peak data rate of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps at fixed locations.
4G	Fourth-generation mobile networks operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.
5G	Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than what is currently available) and more connections (100 times more than what is currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles.
Pre-5G	The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.
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 the PRC to support voice and data transmission.

LTE	LTE (Long Term Evolution) which is the long-term evolution of 3G technology, refers to fourth-generation mobile communication technologies with OFDM as its core technology. LTE is being promoted by 3GPP and is continuously under evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, its supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
Cloud Radio	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.
QCell	QCell connects the BBU (base-band unit) to the PICO RRU (a small remote radio unit) and facilitates power supply to the PICO RRU through Ethernet, enabling LTE indoor coverage with the deployment of Ethernet cables only.
UBR	Ultra-broadband radio frequency that can support bandwidth of 170MHz at the 800MHz frequency band and 365MHz at the 1.8-2.1GHz frequency bands, which is significantly higher than conventional RRU (radio remote unit).
Magic Radio	An innovative technology which allows GSM and LTE to share the same frequency spectrum, hence supporting more GSM and LTE services within limited frequency spectrum width.
PON	Provision of optical fiber access service through unpowered optical network technologies, using point-to-multipoint topological structures that enable conservation of optical fiber resources for the main trunk as well as flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON based on different technology standards.
IDC	Internet Data Center, an Internet-based centre for facilities that provide operating maintenance and related services for equipment that handles data collection, storage, processing and dispatch in an integrated manner.

Glossary

PTN	Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while retaining the traditional strengths of optical transmission, such as high availability and reliability, efficient bandwidth and flow management, convenient OAM and network management, scalability and better security.
OTN	Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN solves the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection, through “digital transmission system” and “optical transmission system” regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection at any time, any location and among any objects. It can help to realise the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
Cloud Computing	A concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.
Big Data	A data set that is too large and complex to be processed by existing conventional database management technologies and tools, and that requires the use of new data processing and management technologies in order to create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informatisation, smart applications and business models of the society. Big data is often characterised by 4Vs: Volume, Variety, Velocity and Value.
Smart City	The application of information technologies such as Cloud Computing, Internet of Things and Big Data in combination with wireline and wireless broadband communication technologies to sense, analyse and integrate various key information of the core operation systems of the city, so as to make automated smart responses to various requirements such as livelihood, environmental protection, public security, urban services and industrial/commercial activities, in realisation of smart management and operation of cities, creating better lives for citizens and facilitating harmony in and sustainable development for the city.

Mobile Internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad, etc. Enriched by the popularisation of smart terminals, Mobile Internet services now include mobile computing, mobile music, smart phone games, positioning technology, wireless communities and wireless payments, etc.
Smart Pipe	Relative to the "dummy pipe," the smart pipe facilitates optimisation of internet traffic flow through technologies such as flow sensor, classification and control, etc to enhance users' experience and deliver added value.
M-ICT Strategy	The strategy of ZTE is to be an "Enabler@M-ICT that facilitates the creation of value through information." The letter "M" denotes a variety of meanings, which include: 1) Mobile: as handheld smart terminals become increasingly popular, ICT services are present everywhere; 2) M2M: the inter-connection of all things (Man-Man, Man-Machine, Machine-Machine); 3)Multiple connection: all-present connection; 4) Multi-service, More coverage and accessibility; 5) More secure, More reliable and easier to use.
CGO Laboratory	Responsible for the incubation of innovation projects and the development and operation of Blue Ocean projects of the Company to support the implementation of the blue ocean strategy under the Company's M-ICT strategy, in realisation of its strategic transformation to become "cool, green and open."

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, handset 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 and government and corporate customers in more than 160 countries and regions, making contributions to facilitate communications via multiple means, such as voice, data, multi-media,wireless broadband and cable broadband, for users all over the world.

Corporate Information

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Hou Weigui
3	Secretary to the Board of Directors/ Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong Cao Wei
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	fengjianxiong@zte.com.cn
4	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	fengjianxiong@zte.com.cn
	Principal place of business in Hong Kong	36/F, Tower Two, Time Square 1 Matheson Street, Causeway Bay Hong Kong
5	Authorised representatives	Shi Lirong Feng Jianxiong
6	Newspapers designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China

Corporate Information

7	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **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 Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building, Beijing, The People's Republic of China
	As to Hong Kong law	Paul Hastings 21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong
10	Auditors	
	PRC	Ernst & Young Hua Ming LLP 21/F, China Resources Building, 5001 Shennan Dong Road, Shenzhen, Guangdong Province, The People's Republic of China Signing Accountants: Li Yuxing, Fu Jie
	Hong Kong	Ernst & Young 22/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong

11 Other relevant information

Initial registration

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

As at the end of the current year

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

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

Chairman's Statement

DEAR SHAREHOLDERS,

I am pleased to present the annual report of the Group for the year ended 31 December 2014, 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 reported rapid growth in net profit attributable to shareholders of the listed company for 2014 as it continued to improve contract profitability and enhance efficiency in cost management during the year.

OPERATING RESULTS

The Group's operating revenue for 2014 amounted to RMB81.47 billion, representing a year-on-year growth of 8.3%, while net profit attributable to shareholders of the listed company amounted to RMB2.63 billion, representing a year-on-year growth of 94.0%. Basic earnings per share amounted to RMB0.77, improving by 97.4% as compared to the previous year. For 2014, the Group's operating revenue from the domestic market and the international market amounted to RMB40.58 billion and RMB40.89 billion, respectively.

BUSINESS DEVELOPMENT

Equipment investment by the global telecommunications industry experienced growth in 2014. The traditional telecommunications industry was facing more opportunities as well as more challenges in its development under the impact of the application of 4G technologies on all fronts, the integration of ICT industries and the trend of informatisation. In addition to focusing on the enhancement of 4G network performance and the development of next-generation broadband technologies, global carriers were also committing an increasing portion of their resources to operations based on the value of flow volume, value-added Big Data business, integrated innovative businesses and approaches for maintaining balance between security and privacy, in a bid to achieve effective transformation by exploring new opportunities for development.

In 2014, in connection with the domestic market, the Group worked proactively in support of the network construction plans of domestic carriers as it established and implemented in depth its M-ICT Strategy and maintained its dominant market position through competitive innovative solutions. In the international market, the Group has formed comprehensive partnerships with mainstream global carriers as it continued to focus on major populous nations and mainstream global carriers and bolster its competitiveness on all fronts while securing stable operations and quality growth.

CORPORATE GOVERNANCE

In 2014, 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 other relevant domestic and overseas laws and regulations. During the year, the Company formulated its "2013 Summary Report and 2014 Work Plan for Internal Control and Audit" to confirm key tasks in internal control for 2014 and effectively rolled out internal control tasks as planned to enhance the standard of the Company's operations and management and risk aversion ability.

SUSTAINABLE DEVELOPMENT

Sustainable development represents important elements of the Group's corporate culture. We constantly update ourselves with the latest notions and standards in sustainable development and seek in-depth understanding of the demands of our stakeholders, so as to ensure the incorporation of sustainable development 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 eco-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 sustainable development and corporate social responsibility has been widely recognised by the government, international organisations and media.

FUTURE PROSPECTS

Looking to 2015, the mobile inter-connection among all things will constitute the main theme underlying developments of the telecommunications industry. From traditional inter-personal communication, we have gradually progressed to communication between people and machines and communication between machines. Given the characteristic features of "omni-connection, omni-present cloud service and safe privacy," the traditional telecommunications industry will face challenges as well as opportunities in its development. In connection with carriers' networks, large-scale deployment, capacity expansion, performance optimisation, and in-depth coverage of 4G networks will drive new demand for investments in the telecommunications industry, as the 4G era has started in most markets around the globe. Meanwhile, carriers will need to accelerate the construction of pipeline intelligentization and "creating value out of information" will become our new opportunities. In connection with government and corporate networks, there will be sophisticated integration between the telecommunications industries and traditional industries, as opportunities relating to government and corporate networks will abound in the information revolution triggered by emerging technologies such as Cloud Computing, Big Data and high-power wireless charge. In connection with handset terminals, the new generation of handset terminals will feature a higher level of smart functions, flexibility and integration. Next-generation voice control technologies and handset security will also constitute new strategic focuses.

To address the aforesaid challenges and opportunities in 2015, the Group will focus on the three mainstream markets of "carriers, government and corporate sectors and consumers" under the theme of "capitalising on opportunities arising from macro-restructuring to create value out of information". Our business development will centre on "new sectors" such as smart voice, smart wireless charger, distributive on-grid power generation, big data platform and its applications, internet finance, and mobile payments, etc, seeking to achieve breakthroughs in profitability through innovations in technologies and business models.

Hou Weigui
Chairman

Shenzhen, the PRC

26 March 2015

Major Events of the Group

2014

January	2014	ZTE joined forces with China Mobile to launch the LTE-A VoLTE voice service, the first of its kind in the industry.
February	2014	ZTE won the GTI innovation award for its innovative construction of TD-LTE network boasting higher quality.
March	2014	ZTE filed 2,309 patent applications in 2013, ranking second in the world, according to the WIPO report.
June	2014	ZTE operated more than 140 management service contracts globally, representing a CAGR of 42% for the past five years.
September	2014	ZTE ranked first in PTN market share for three years in a row.
September	2014	ZTE partnered with Dongfeng Motor to build the first pre-commercial bus route in China deploying new-energy vehicles equipped with the high-power wireless-charging system.
September	2014	ZTE launched the first 4G Qcell multi-mode indoor depth coverage solution in the industry.
October	2014	ZTE won 30.77% of China Mobile's purchase of high-performance routers in 2014.
October	2014	ZTE set yet another world record for single carrier 400G signal transmission over ultra-long distance.
November	2014	ZTE announced its blueprint for Pre-5G and 5G development in an illustration of its vision for 5G.
November	2014	ZTE was named among the "Outstanding Cases in Global Smart Cities 2014" as the only Chinese enterprises awarded.
December	2014	ZTE unveiled new company logo to underpin its massive M-ICT strategy for the future.

Highlights of accounting and financial indicators

(I) WHETHER THE COMPANY HAS MADE RETROSPECTIVE ADJUSTMENTS TO OR RESTATED ACCOUNTING DATA OF THE PREVIOUS YEAR BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

☐ Yes ✓ No

(II) MAJOR ACCOUNTING DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in millions

Item	2014
Operating revenue	81,471.3
Operating profit	60.3
Total profit	3,538.2
Net profit attributable to shareholders of the listed company	2,633.6
Net profit after extraordinary items attributable to shareholders of the listed company	2,072.0
Net cash flows from operating activities	2,512.6

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

Unit: RMB in millions

Item	2014
Non-operating income	666.8
Gains/(Losses) from fair value change	148.3
Investment income	155.4
Less: Gains/(Losses) on disposal of non-current assets	35.7
Less: Other non-operating expenses	274.1
Less: Effect of income tax	99.1
Total	**561.6**

Highlights of accounting and financial indicators

(III) 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 2014**	For the year ended 31 December 2013	Year-on-year change	For the year ended 31 December 2012 (Restated)
Operating revenue	**81,471.3**	75,233.7	8.29%	84,118.9
Operating profit	**60.3**	(1,493.1)	104.04%	(5,002.2)
Total profit	**3,538.2**	1,827.8	93.58%	(1,983.2)
Net profit attributable to shareholders of the listed company	**2,633.6**	1,357.6	93.99%	(2,840.9)
Net profit after extraordinary items attributable to shareholders of the listed company	**2,072.0**	73.0	2,738.36%	(4,190.5)
Net cash flows from operating activities	**2,512.6**	2,574.6	(2.41%)	1,550.0

Unit: RMB in millions

Item	**As at 31 December 2014**	As at 31 December 2013	Year-on-year change	As at 31 December 2012 (Restated)
Total assets	**106,214.2**	100,079.5	6.13%	107,446.3
Total liabilities	**79,921.7**	76,453.8	4.54%	84,853.5
Owners' equity attributable to shareholders of the listed company	**24,878.6**	22,532.7	10.41%	21,456.6
Share capital (million shares)	**3,437.5**	3,437.5	—	3,440.1

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

Item	For the year ended 31 December 2014	For the year ended 31 December 2013	Year-on-year change	For the year ended 31 December 2012 (Restated)
Basic earnings per share (RMB/share) Note 1	**0.77**	0.39	97.44%	(0.83)
Diluted earnings per share (RMB/share) Note 2	**0.77**	0.39	97.44%	(0.83)
Basic earnings per share after extraordinary items (RMB/share) Note 1	**0.60**	0.02	2,900.00%	(1.22)
Weighted average return on net assets (%)	**11.10%**	6.17%	Increased by 4.93 percentage points	(12.46%)
Weighted average return on net assets after extraordinary items (%)	**8.74%**	0.33%	Increased by 8.41 percentage points	(18.38%)
Net cash flows from operating activities per share (RMB/share) Note 3	**0.73**	0.75	(2.67%)	0.45

Item	As at 31 December 2014	As at 31 December 2013	Year-on-year change	As at 31 December 2012 (Restated)
Net asset per share attributable to shareholders of the listed company (RMB/share) Note 3	**7.24**	6.55	10.53%	6.24
Gearing ratio (%)	**75.25%**	76.39%	Decreased by 1.14 percentage points	78.97%

Note 1: Basic earnings per share for the reporting period and 2013 was calculated on the basis of the total share capital at the end of each period. Basic earnings per share for 2012 was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 2: As share options granted by the Company have given rise to 2,543,000 and 1,767,000 potentially dilutive ordinary shares for the reporting period and 2013, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor. As there was no Subject Share quota under the Phase I Share Incentive Scheme of the Company remaining in lock-up in 2012, diluted earnings per share was the same as basic earnings per share;

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

Highlights of accounting and financial indicators

3. **Extraordinary gains or losses items and amounts 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 2014**	For the year ended 31 December 2013	For the year ended 31 December 2012
Non-operating income	**666.8**	594.2	559.6
Gains/(Losses) from fair value change	**148.3**	204.0	(107.4)
Investment income	**155.4**	857.7	1,197.7
Less: Gains/(Losses) on disposal of non-current assets	**35.7**	18.1	19.4
Less: Other non-operating expenses	**274.1**	126.4	42.8
Less: Effect of income tax	**99.1**	226.7	238.1
Total	**561.6**	1,284.7	1,349.6

(IV) 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	**2014**	2013	2012 (Restated)	2011	2010 (Restated)
Revenue	**81,471.3**	75,233.7	84,118.9	86,254.5	69,906.7
Cost of sales	**(57,759.0)**	(54,775.1)	(65,545.5)	(62,086.4)	(48,241.8)
Gross profit	**23,712.3**	20,458.6	18,573.4	24,168.1	21,664.9
Other income and gains	**4,561.2**	4,905.3	4,609.2	3,664.4	2,639.8
Research and development expenses	**(9,008.5)**	(7,383.9)	(8,829.2)	(8,492.6)	(7,092.0)
Selling and distribution expenses	**(10,391.6)**	(10,158.5)	(11,340.9)	(11,112.2)	(8,890.2)
Administrative expenses	**(2,138.1)**	(2,258.7)	(2,449.2)	(2,605.6)	(2,524.0)
Other expenses	**(1,582.3)**	(2,119.1)	(706.1)	(1,684.1)	(753.8)
Profit from operating activities	**5,153.0**	3,443.7	(142.8)	3,938.0	5,044.7
Finance costs	**(1,561.7)**	(1,650.4)	(1,888.5)	(1,374.2)	(728.6)
Share of profit and loss of jointly controlled entities and associates	**(53.0)**	34.5	48.1	71.3	44.1
Profit before tax	**3,538.3**	1,827.8	(1,983.2)	2,635.1	4,360.2
Income tax expense	**(810.6)**	(394.2)	(621.4)	(392.0)	(883.7)
Profit before non-controlling interests	**2,727.7**	1,433.6	(2,604.6)	2,243.1	3,476.5
Attributable to:					
Non-controlling interests	**(94.1)**	(76.0)	(236.3)	(182.9)	(226.3)
Attributable to:					
Shareholders of parent company	**2,633.6**	1,357.6	(2,840.9)	2,060.2	3,250.2

Unit: RMB in millions

Assets and liabilities	As at 31 December 2014	2013	2012 (Restated)	2011 (Restated)	2010
Total assets	**110,254.6**	102,473.0	109,911.5	107,784.1	85,509.2
Total liabilities	**83,962.1**	78,847.3	87,318.7	81,549.6	60,547.2
Non-controlling interests	**1,413.9**	1,093.0	1,136.3	2,057.1	1,868.1
Shareholders' equity attributable to parent company	**24,878.6**	22,532.7	21,456.5	24,177.4	23,093.9

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

Item	2014	2013	2012 (Restated)	2011 (Restated)	2010
Basic earnings per share (RMB/share) Note 1	**0.77**	0.39	(0.83)	0.61	0.98
Net asset per share (RMB/share) Note 2	**7.24**	6.55	6.24	7.05	6.87
Fully diluted return on net assets (%)	**10.59%**	6.03%	(13.24%)	8.52%	14.07%

Note 1: Basic earnings per share for the reporting period and 2013 was calculated on the basis of the total share capital at the end of each period;

Note 2: Net asset per share attributable to shareholders of the listed company for the reporting period and 2013 was calculated on the basis of the total share capital at the end of each period.

(VI) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2014 CALCULATED IN ACCORDANCE WITH PRC ASBEs ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Report of the Board of Directors

The Board of Directors is pleased to present its audited operating results report together with the financial statements of the Group for the year ended 31 December 2014.

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, handset terminals, telecommunications software systems, services and other products.

FINANCIAL RESULTS

Please refer to pages 155–156 and page 320 of this report for the results of the Group for the year ended 31 December 2014 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 of the Group for the three financial years ended 31 December 2014 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 2014 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 2010, 2011, 2012, 2013 and 2014 prepared in accordance with HKFRSs.

(I) Business Review for 2014

1. Overview of the domestic telecommunications industry for 2014

In 2014, investment in equipment by domestic carriers continued to grow mainly in connection with the large-scale deployment of 4G networks and the construction of related ancillary facilities. The rapid development of the Mobile Internet coupled with the further penetration of 4G smart phones was driving the commercialisation process of 4G networks. While the wireless, transmission and broadband sectors remained heavily favoured spots for equipment investment by carriers, Smart Pipe, Cloud Computing, Big Data and Smart City were also garnering increasing attention and investments.

2. Overview of the global telecommunications industry for 2014

Equipment investment by the global telecommunications industry experienced growth in 2014. The traditional telecommunications industry was facing more opportunities as well as more challenges in its development under the impact of the application of 4G technologies on all fronts, the integration of ICT industries and the trend of informatisation. In addition to focusing on the enhancement of 4G network performance and the development of next-generation broadband technologies, global carriers were also committing an increasing portion of their resources to operations based on the flow volume, value-added Big Data business, integrated innovative businesses and approaches for maintaining balance between security and privacy, in a bid to achieve effective transformation by exploring new opportunities for development.

3. Operating Results of the Group for 2014

The Group's overall operating revenue for 2014 increased by 8.3% to RMB81.47 billion as compared to 2013, primarily reflecting operating revenue growth for 4G system products in the domestic and international markets, routers and switches in the domestic and international markets, optical communication systems in the domestic market and 4G handsets in the domestic and international markets. In 2014, the continued growth in scale of the Group's domestic and international 4G system equipment business and domestic and international 4G handset business coupled with ongoing improvements in contract profitability resulted in growth in both sales volume and gross profit margin. In addition, the Group enhanced financial expenses control and mitigated the impact of exchange rate volatility on the Group's operations, resulting in the relatively substantial decrease in overall financial expenses. As a result of the aforesaid factors, the Group reported net profit attributable to shareholders of the listed company of RMB2.63 billion for 2014, representing a year-on-year growth of 94.0%. Basic earnings per share amounted to RMB0.77.

(1) By market

The domestic market

During the year, the Group reported operating revenue of RMB40.58 billion from the domestic market, accounting for 49.8% of the Group's overall operating revenue. The Group worked proactively in support of the network construction plans of domestic carriers as it established and implemented in depth its M-ICT Strategy and maintained its dominant market position through competitive innovative solutions. Moreover, the Group also made vigorous moves to roll out its operations in strategic emerging sectors such as Cloud Computing, Big Data and Smart City, with a view to ensuring positive development in the long term.

The international market

During the year, the Group reported operating revenue of RMB40.89 billion from the international market, accounting for 50.2% of the Group's overall operating revenue. The Group has formed comprehensive partnerships with mainstream global carriers as it continued to focus on major populous nations and mainstream global carriers and bolster its competitiveness on all fronts while securing stable operations and quality growth.

(2) By product

During the year, the Group reported operating revenue of RMB46.77 billion for carriers' networks. Operating revenue for handset terminals amounted to RMB23.12 billion. Operating revenue for telecommunications software systems, services and other products amounted to RMB11.58 billion.

Carriers' networks

In connection with wireless products, the Group persisted in prioritising innovation and pursued ongoing enhancement of product competitiveness, as it launched cutting-edge solutions, such as Cloud Radio, QCell, UBR and Magic Radio, and maintained relatively strong growth in the market created by the deployment of new 4G networks in the PRC and elsewhere. In the traditional 2G/3G markets, stable growth was achieved as the Group continued to optimise its market profile. In anticipation of future developments in wireless communications, the Group achieved substantial progress in the preliminary research of 5G technologies and became the first industry player to introduce the Pre-5G concept and conduct related field tests.

Report of the Board of Directors

In connection with wireline and optical communications products, the Group achieved stable growth on the back of cutting-edge products and solutions launched following dedicated efforts in product innovation and solution operations.

In connection with Cloud Computing and IT products, the Cloud Computing and Big Data processing platforms developed by our Group remained cutting-edge products in the industry, as our Big Data processing platform and distributive data base made breakthroughs in the financial sector, while our data center products made breakthroughs in the domestic market.

Handset terminals

In line with the business philosophy of shifting to a more consumer-oriented and internet-driven approach, the Group optimised the distribution of its product types with a special emphasis on the development of boutique models and flagship series, while streamlining and new developments were conducted in many areas, such as surface design, quality control, brand building, channel operation and after-sales service. In 2014, smartphone products continued to account for an increasing percentage of the Group's total sales, underpinned by a substantial increase in the percentage share of 4G handsets.

Telecommunications software systems, services and other products

Operating revenue from the Group's telecommunications software systems, services and other products for the year reported year-on-year decline of 9.7%, attributable mainly to the decrease in operating revenue from international services.

The Group is also vigorously developing the market for government and corporate sectors and services in pursuit of sustainable development.

(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

Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	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	81,471.3	55,760.1	31.56%	8.29%	4.96%	2.17
Total	**81,471.3**	**55,760.1**	**31.56%**	**8.29%**	**4.96%**	**2.17**
II. By product						
Carriers' networks	46,768.2	28,747.8	38.53%	14.92%	12.77%	1.17
Handset terminals[Note]	23,117.1	19,549.6	15.43%	6.52%	5.75%	0.62
Telecommunications software systems, services and other products	11,586.0	7,462.7	35.59%	(9.74%)	(18.41%)	6.85
Total	**81,471.3**	**55,760.1**	**31.56%**	**8.29%**	**4.96%**	**2.17**
III. By region						
The PRC	40,583.5	26,494.2	34.72%	13.88%	11.46%	1.42
Asia (excluding the PRC)	12,131.6	8,317.4	31.44%	(12.40%)	(20.36%)	6.85
Africa	6,174.2	3,902.4	36.80%	5.25%	(10.36%)	11.02
Europe, Americas and Oceania	22,582.0	17,046.1	24.51%	13.58%	17.10%	(2.27)
Total	**81,471.3**	**55,760.1**	**31.56%**	**8.29%**	**4.96%**	**2.17**

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

(1) Analysis of change in revenue

The Group reported RMB81,471.3 million in operating revenue for 2014, improving by 8.29% as compared with last year. Operating revenue generated from the domestic business amounted to RMB40,583.5 million, increasing by 13.88% as compared with last year. Operating revenue generated from the international business also rose by 3.26%, as compared with last year, to RMB40,887.8 million.

Analysed by product segment, year-on-year growth of operating revenue was reported for carriers' networks and handset terminals, while decline was reported for telecommunication software systems, services and other products. The increase in operating revenue from the Group's carriers' networks for 2014 reflected mainly the increase in operating revenue from 4G system products, routers and switches in the domestic and international markets, as well as optical communication system products in the domestic market. The increase in operating revenue from the Group's handset terminals for 2014 reflected mainly the increase in operating revenue generated from 4G handsets in the domestic and international markets. The decrease in operating revenue from the Group's telecommunication software systems, services and other products for 2014 mainly reflected the decline in operating revenue from international services.

Report of the Board of Directors

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

Unit: RMB in millions

2014			2013 Note					
Operating revenue	**Operating costs**	**Gross profit margin**	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)
81,471.3	**55,760.1**	**31.56%**	75,199.2	53,097.4	29.39%	8.34%	5.01%	2.17

Note: Figures of operating revenue and operating costs for 2013 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2014.

Anhui Yalong Communication Technology Company Limited ("Yalong") was deconsolidated from the Group's 2014 financial statements following the disposal of 100% equity interests in Yalong by Anhui Wantong Posts and Telecommunication Company Limited, a subsidiary of the Company, in April 2014. The operating revenue and operating cost attributable to Yalong in the 2013 consolidated financial statements amounted to RMB34.5 million and RMB28.5 million, respectively. Excluding operating revenue and operating cost attributable to Yalong in 2013, the Group's operating revenue and operating cost for 2014 increased by 8.34% and 5.01%, respectively, as compared with last year. Gross profit margin improved by 2.17 percentage points as compared with last year.

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

Unit: RMB in millions

By product	**Operating revenue**	**Operating costs**	**Gross profit margin**
Carriers' networks	46,768.2	28,747.8	38.53%
Handset terminals	23,117.1	19,549.6	15.43%
Telecommunications software systems, services and other products	11,586.0	7,462.7	35.59%

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

Unit: RMB in millions

		2014		2013		
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	**43,414.0**	**77.86%**	42,708.8	80.39%	1.65%
	Engineering costs	**10,576.6**	**18.97%**	10,189.5	19.18%	3.80%
	Total	**53,990.6**	**96.83%**	52,898.3	99.57%	2.06%

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

Unit: RMB in millions

Item	**2014**	2013	Year-on-year increase/ decrease
Selling and distribution expenses	**10,259.2**	10,003.9	2.55%
General and administrative expenses	**2,031.4**	2,202.3	(7.76%)
Finance expenses	**2,101.0**	2,460.3	(14.60%)
Income tax	**810.5**	394.2	105.61%[Note]
Research and development expenses	**9,008.5**	7,383.9	22.00%

Note: Mainly attributable to the increase in the Group's profit.

The Group's research and development expenses for 2014 accounted for 36.21% and 11.06%, 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	**2014**	2013	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**97,264.4**	90,572.1	7.39%
Sub-total of cash outflows from operating activities	**94,751.8**	87,997.5	7.68%
Net cash flows from operating activities	**2,512.6**	2,574.6	(2.41%)
Sub-total of cash inflows from investing activities	**1,832.4**	2,495.1	(26.56%)[Note 1]
Sub-total of cash outflows from investing activities	**3,455.1**	4,157.2	(16.89%)
Net cash flows from investing activities	**(1,622.7)**	(1,662.1)	2.37%
Sub-total of cash inflows from financing activities	**39,753.8**	23,376.8	70.06%[Note 2]
Sub-total of cash outflows from financing activities	**43,480.1**	26,058.4	66.86%[Note 3]
Net cash flows from financing activities	**(3,726.3)**	(2,681.6)	(38.96%)
Net increase in cash and cash equivalents	**(2,888.1)**	(2,541.4)	(13.64%)

Note 1: Mainly attributable to the decrease in net cash received from the disposal of subsidiaries and other business units;

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

Note 3: Mainly attributable to the increase in cash used in debt repayment.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the year, please refer to Note V 52.Supplemental information on 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 of the principal business during the year*

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

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

For 2014, the Group reported operating profit of RMB60.3 million representing year-on-year growth of 104.04%, which was primarily attributable to growth in revenue and gross profit margin. Operating revenue improved 8.29% to RMB81,471.3 million, as compared with last year, which was primarily attributable to operating revenue growth for 4G system products in the domestic and international markets, routers and switches in the domestic and international markets, optical communication systems in the domestic market and 4G handsets in the domestic and international markets. Investment income declined 85.29% year-on-year to RMB134.5 million, reflecting mainly the decrease in investment income arising from the disposal of equity interests as compared with last year. The net amount of non-operating income and expense grew 4.73% to RMB3,477.9 million, reflecting mainly year-on-year growth in VAT rebate for software products.

(3) Changes in the profitability (gross profit margin) of the principal business during the year as compared to the previous year are set out as follows:

The year saw growth in both sales volume and gross profit margin as a result of continued growth in scale of the Group's domestic and international 4G system equipment business and domestic and international 4G handset business coupled with ongoing improvements in contract profitability.

7. *Analysis of the Group's assets and liabilities*

(1) Change in assets

Unit: RMB in millions

Item	As at 31 December 2014		As at 31 December 2013		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	**106,214.2**	**100%**	100,079.5	100%	—
Cash	**18,115.9**	**17.06%**	20,903.0	20.89%	(3.83)
Trade receivables	**25,153.0**	**23.68%**	21,393.3	21.38%	2.30
Inventory	**19,592.3**	**18.45%**	12,434.4	12.42%	6.03
Investment properties	**2,004.5**	**1.89%**	1,855.2	1.85%	0.04
Long-term equity investments	**461.3**	**0.43%**	478.0	0.48%	(0.05)
Fixed assets	**7,348.3**	**6.92%**	7,449.5	7.44%	(0.52)
Construction in progress	**262.9**	**0.25%**	177.4	0.18%	0.07

(2) Change in liabilities

Unit: RMB in millions

Item	As at 31 December 2014 Amount	As at 31 December 2014 As a percentage of total assets	As at 31 December 2013 Amount	As at 31 December 2013 As a percentage of total assets	Year-on-year increase/ decrease in percentage of total assets (percentage points)
Short-term loans	**10,998.1**	**10.35%**	12,589.0	12.58%	(2.23)
Long-term loans due within one year	**6,174.3**	**5.81%**	2,753.9	2.75%	3.06
Long-term loans	**10,039.7**	**9.45%**	5,385.7	5.38%	4.07

(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)	—	—	—	—	—	—	—
2. Derivative financial assets	217,454	134,548	—	—	—	—	240,973
3. Available-for-sale financial assets	364,479	—	(28,570)	—	—	—	319,469
Sub-total of financial assets	581,933	134,548	(28,570)	—	—	—	560,442
Investment properties	1,855,246	130,306	—	—	18,913	—	2,004,465
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	**2,437,179**	**264,854**	**(28,570)**	**—**	**18,913**	**—**	**2,564,907**
Financial liabilities Note	72,065	(116,572)	3,965	—	—	—	71,485

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.

Report of the Board of Directors

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

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments at fair value through profit or 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/USD and RMB/EUR forward exchange rates.

③ Internal control systems relating to fair value measurement

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

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

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	217,454	134,548	—	—	240,973
Including: derivative financial assets	217,454	134,548	—	—	240,973
2. Loans and receivables	40,914,462	—	—	428,513	40,510,003
3. Available-for-sale financial assets	424,918	—	(47,386)	—	348,375
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	41,556,834	134,548	(47,386)	428,513	41,099,351
Financial liabilities	12,514,689	(116,572)	3,965	—	13,189,929

8. Major customers and suppliers

Sales by the Group in 2014 to its largest customer amounted to RMB17,963.4 million, accounting for 22.05% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB33,689.6 million, accounting for 41.35% of the total sales of the Group for the year. The five largest customers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest customers. None of the Directors or Supervisors of the Company or their close associates or, to the knowledge of the Board of Directors, 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 RMB3,707.6 million in 2014, accounting for 7.90% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB9,099.7 million, accounting for 19.39% of the total purchases of the Group for the year. The Company and ZTE Capital together held 31% equity interests in Zhonghe Chunsheng Fund, which held 3.46% equity interests in 深圳市共進電子股份有限公司, one of the five largest suppliers of the Company. The Company also held 4.9% equity interests in Shenzhen Xingfei Technology Company Limited, which held 100% equity interests in Nanchang Xingfei Technology Company Limited, one of the five largest suppliers of the Company. Save as the holding of equity interests disclosed above, the five largest suppliers were not connected to the Company, none of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest suppliers. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

9. Technological innovations

The Group has effectively enhanced its technological progress and core competitiveness, as it continued to foster technological capabilities and pursue new product development in close tandem with trends in the ICT industry, in persistent adherence to the principles of proprietary innovation. In 2014, the Group confirmed its M-ICT strategy, with the aim of becoming an enabler in the M-ICT era focused on carriers, government and corporate sectors, handset terminals and strategic emerging markets, striving to add value through information and unveil the new era of mobile interconnection of all things, where the original purpose of technology, namely to serve people, will once again be endorsed. As we shift from a customer-focus to a user-focus, users' experience will provide an ongoing drive to the development of ICT technologies, while technological progress will, in turn, further enhance users' experience.

In terms of product strategy, the Group was mainly focused on broadband-based 4G products series. Government and corporate networks and services, sectors holding out enormous market potential, also became a focus for development.

In connection with wireless products, the commercial application of multi-mode soft-baseband chips and the completion of product testing of the digital intermediate frequency chip have provided strong assurance for our wireless broadband construction. With the launch of cutting-edge solutions, such as Cloud Radio, QCell, UBR and Magic Radio, the Group continued to maintain relatively strong growth in the market created by the deployment of new 4G networks in the PRC and elsewhere. The Group also achieved substantial progress in the preliminary research of 5G technologies, as it became the first industry player to introduce the Pre-5G concept. In November 2014, we conducted a Pre 5G Massive MIMO field test, the first of its kind in the industry, which demonstrated a local area data throughput rate at least 5 times higher than that of existing systems.

Report of the Board of Directors

In connection with wireline products, we achieved full independence in the research and development of our PON serialised chips, while the XG PON serialised products based on our independently developed core chips were employed in the world's first large-scale commercial deployment of such products in 2014, signifying further enhancement of our product capacity. The Group also launched cutting edge products such as large-capacity optical network cross-connection equipment and IDC switch, while the research and development of the next-generation high-end packet product platform was also completed, providing strong support for the market development of a variety of products, such as core router, multi-service edge router, packet transport network and service gateway.

In connection with Cloud Computing and IT products, the Group completed the research and development of cutting-edge Cloud Computing and Big Data processing platforms and offered comprehensive, customised solutions for parallel and high-performance computing to support applications in services relating to the internet and Internet of Things, securing breakthrough business deals in the financial, transportation, education, government and public security sectors as a result.

In connection with handset terminals, we persisted in the principles of users' senses, ongoing value creation, open platforms and awesome experiences. In terms of technological innovation, we made strong efforts to resolve the bottleneck in voice technologies and applied next-generation voice technologies in our smart phones to create a brand new experience in human-machine interaction. In terms of platform development, we have built a secure handset platform following sophisticated research and development in handset security, especially in relation to personal security and corporate security.

Moreover, with the launch in Qinhuangdao, Ningbo and Yinchuan of the Smart City UOC (Urban Operation Center) platform, developed upon the Group's strengths in Cloud Computing, Internet of Things and Big Data technologies to cater to practical domestic needs for building Smart Cities, the Group became a leader and trendsetter for Smart City standards and construction in the domestic market.

In 2014, the Group made focused efforts in the development of the "CGO Laboratory," which was specifically designated as the operating arm for company-level innovative projects established to further enhance the incubation of innovative projects and the development of new businesses and sectors.

The Group maintains an annual R&D budget equivalent to approximately 10% of its sales revenue. Currently, the Group has approximately 27,000 R&D personnel and 19 R&D centres in China, the United States, Sweden, France and Canada, as well as more than 10 joint innovation centres established in association with leading carriers to ensure success in the market through better assessment of market demand and customers' experience.

As at 31 December 2014, the Group held patent assets of over 60,000 items, including granted patents of over 17,000 items. With memberships at more than 70 international standardisation organisations and forums, convenorships and presenter roles at major international standardisation organisations taken up by more than 30 experts from the Group, the presentation of over 28,000 research papers in aggregate to international standardisation organisations and editorships and authorships for more than 200 international standards, the Group continued to foster strengths in technologies and patents for key products and technologies, ensuring ongoing enhancement in its ability to counter patent risks.

In 2014, the "synergised high-speed wireless communication system" project developed under the leadership of the Group won the Class II National Award for Progress in Science and Technology. The Group also won a number of Class II Technological Invention Awards and Class II Technological Progress Awards in association with other parties.

In 2014, the Group undertook leading roles in a number of key national technological projects, such as the "next-generation broadband wireless mobile communication network," in addition to the R&D and industrialisation of more than 10 projects including the National 863 Project, Electronic Development Foundation and Integrated Circuit Project.

"ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes" has been formed to solicit memberships among leading domestic colleges and research institutes specialising in telecommunications technologies, in support of the government's call for the formation of a regime for cooperation in technological innovation, where the enterprise, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 30 institutions have joined the Forum. In 2014, we started cooperation with tertiary institutions to build united innovation centres and united laboratories in association, to jointly undertake key national projects and industrialization projects of the National Development and Reform Commission.

10. Analysis of investment

(1) Equity investments

① Overview

The Group's equity investments in 2014 amounted to approximately RMB461,316,000, representing a decrease of 3.50% compared to approximately RMB478,037,000 reported for 2013.

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

② Investment in securities

A. Investment in securities as 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 (ten thousand shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (ten thousand 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
Convertible bonds Note	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	16,047.20	2,583.10	Other receivables	Initial investment
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–
Total			**16,309.61**	**N/A**	**–**	**N/A**	**–**	**16,047.20**	**2,583.10**	**–**	**–**

Note: China All Access is a company listed on the Hong Kong Stock Exchange. The initial investment for the acquisition of convertible bonds of China All Access by ZTE HK, a wholly-owned subsidiary of the Company, amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. The nominal value of the investment as at the end of the reporting period was approximately HKD201.0 million, equivalent to approximately RMB160.5 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.7984) on 31 December 2014.

Report of the Board of Directors

B. Details of investment in securities

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

Pursuant to "Resolution on the subscription of China All Access (Holdings) Limited convertible bonds by ZTE HK" considered and approved at the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement in relation to the Subscription of China All Access (Holdings) Limited Convertible Bonds" with China All Access on 23 December 2014 for the subscription of HKD350,000,000 convertible bonds issued by China All Access at an annual interest rate of 6% and with the principle amount paid annually within two years. On 26 February 2015, ZTE HK completed the subscription of China All Access convertible bonds.

As at the end of the year, ZTE HK held convertible bonds of China All Access in the amount of HKD201.5 million. The convertible bonds held by ZTE HK have been classified as other receivables and interest income arising from the convertible bonds has been included in current profit and loss.

③ Holding of equity interests in other listed companies

A. Holding of equity interests in other listed companies as 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 (ten thousand shares)	Shareholding percentage at the beginning of the period	Shares held at the end of the period (ten thousand shares)	Shareholding percentage at the end of the period	Nominal value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
Stock	300322	Speed Note 1	762.79	240	2.14%	480	2.14%	9,182.40	–	Available-for-sale financial assets	Initial investment
Stock	00633.HK	China All Access Note 2	16,309.61	11,200	8.43%	9,698.20	6.13%	22,764.50	2,270.63	Available-for-sale financial assets	Initial investment
Total			**17,072.40**	**11,440**	**–**	**10,178.20**	**–**	**31,946.90**	**2,270.63**	**–**	**–**

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

Note 2: The initial investment for ZTE HK's acquisition of China All Access shares amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. The nominal value of the investment as at the end of the reporting period was approximately HKD285.1 million, equivalent to approximately RMB227.6 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.7984) on 31 December 2014.

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

a. Shareholdings in Speed

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

b. Shareholdings in China All Access

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

As at the end of the year, ZTE HK held 96,982,000 shares in China All Access, accounting for approximately 6.13% of the total share capital of China All Access. The shares held by ZTE HK have been classified as available-for-sale financial assets for accounting purposes and recognised in capital reserve at fair value.

④ Save as aforesaid, the Group did not hold any stakes in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trust companies and future companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.

(2) Derivative investments, entrusted investments and entrusted loans

① Derivative investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment Note 1	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets Note 2 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
HSBC	N/A	No	Interest rate swap Note 3	–	2011/12/19	2016/7/8	30,484.50	–	31,002.50	1.2%	–
Standard Chartered Bank	N/A	No	Interest rate swap Note 3	–	2011/12/22	2016/7/8	30,484.50	–	31,002.50	1.2%	–
BOC	N/A	No	Foreign exchange forwards	–	2014/1/6	2015/12/16	500,142.76	–	195,576.94	7.9%	4,537.11
BNP Paribas	N/A	No	Foreign exchange forwards	–	2014/1/9	2015/11/30	333,810.82	–	171,398.53	6.9%	3,976.21
CITIC Bank	N/A	No	Foreign exchange forwards	–	2014/1/23	2015/3/12	158,747.41	–	32,336.23	1.3%	750.16
Other banks	N/A	No	Foreign exchange forwards	–	2014/1/6	2015/12/16	282,019.80	–	284,498.51	11.4%	6,207.61
Total				**–**	**–**	**–**	**1,335,689.79**	**–**	**745,815.21**	**29.9%**	**15,471.09**

Report of the Board of Directors

Source of funds for derivative investment	Internal funds
Litigation (if applicable)	Not involved in any litigation
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	"Announcement of Resolutions of the Fortieth Meeting of the Fifth Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2013," both dated 27 March 2013, and "Announcement of Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2014," both dated 26 March 2014.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement of Resolutions of the 2012 Annual General Meeting" dated 30 May 2013 and "Announcement of Resolutions of the 2013 Annual General Meeting" dated 29 May 2014.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Value-protection derivative investments were conducted by the Company during 2014. The major risks and control measures are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;

	5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.
Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB154.71 million, comprising gains from fair-value change of RMB8.74 million and recognised investment income of RMB145.97 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 those for the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	Independent Non-executive Directors' Opinion: The Company conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

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

Note 2: Net assets as at the end of the reporting period represented net assets attributable to shareholders of the listed company as at the end of the reporting period.

Note 3: Interest rate swaps were dealt with as value protection hedging for accounting purposes and the gains or losses arising from interest rate swaps was recognised in the capital reserve.

Report of the Board of Directors

② Entrusted Investments

Unit: RMB in ten thousands

Name of trustee	Connected relationship	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	2,500	2014-9-24	2014-12-10	Settlement upon maturity based on the actual amount	2,500	–	–	28.48
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	490	2014-9-24	2014-12-30	Settlement upon maturity based on the actual amount	490	–	–	1.92
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	300	2014-10-29	2014-12-3	Settlement upon maturity based on the actual amount	300	–	–	1.47
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	300	2014-12-10	2014-12-30	Settlement upon maturity based on the actual amount	300	–	–	0.50
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	2,500	2014-12-16	2014-12-30	Settlement upon maturity based on the actual amount	2,500	–	–	4.16
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	15	2014-12-25	2014-12-29	Settlement upon maturity based on the actual amount	15	–	–	0.01
China Merchants Bank, Licheng Sub-branch, Quanzhou	N/A	No	Bank investment product	40	2014-12-4	2014-12-21	Settlement upon maturity based on the actual amount	40	–	–	0.02
China Merchants Bank, Licheng Sub-branch, Quanzhou	N/A	No	Bank investment product	370	2014-12-12	2014-12-31	Settlement upon maturity based on the actual amount	370	–	–	0.41
China Merchants Bank, Licheng Sub-branch, Quanzhou	N/A	No	Bank investment product	320	2014-12-25	2015-3-10	Settlement upon maturity based on the actual amount	–	–	–	–
Wing Hang Bank (China) Limited, Shenzhen Branch	N/A	No	Bank investment product	3,000	2014-12-20	2015-12-21	Spot realisation on effective date of contract	–	–	–	113
Wing Hang Bank (China) Limited, Shenzhen Branch	N/A	No	Bank investment product	3,000	2014-12-22	2015-12-23	Spot realisation on effective date of contract	–	–	–	113
Total				**12,835**	**–**	**–**	**–**	**6,515**	**–**	**–**	**262.97**

Source of funds for entrusted investment	Internal funds
Aggregate amount of overdue and outstanding principal and gain	Nil
Litigation incurred (if applicable)	N/A
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)	N/A
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)	N/A

③ During the year, the Company did not enter into any entrusted loans.

(3) Use of issue proceeds

① Overview of 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 in respect of the subscription amounts for the online issue ("Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556_H03"), a capital verification report in respect of the subscription amounts for the offline placing ("Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556_H04") and a capital verification report in respect of the actual receipt of issue proceeds ("Ernst & Young Hua Ming (2012) Zhuan Zi No. 60438556_H05") 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.

② Commitment of issue proceeds

☐ Applicable ✓ N/A

③ Change in the use of issue proceeds

☐ Applicable ✓ N/A

Report of the Board of Directors

(4) Analysis of principal subsidiaries and investee companies

Unit: RMB in million

Name of company	Corporate type	Business sector	Principal products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Manufacturing	Software development	RMB51.08 million	20,156.3	5,592.3	16,154.1	(1,185.7)	1,075.0
ZTE HK	Subsidiary	Information technology	General business	HKD995 million	27,258.3	1,836.8	20,096.5	(281.4)	(479.7)
ZTE ICT Company Limited	Subsidiary	Communications and related equipment manufacturing	Design and sales of corporate management hardware and software products	RMB60 million	1,472.3	593.6	867.3	92.2	150.7
ZTE Kangxun	Subsidiary	Communications and related equipment manufacturing	Manufacturing of electronic products and accessories	RMB1,755 million	18,717.9	2,436.6	49,032.5	279.2	207.8
ZTE Microelectronics Technology Company Limited	Subsidiary	Communications and related equipment manufacturing	Design, generation and sales of integrated circuits	RMB100 million	1,794.5	730.4	3,064.2	368.6	453.9
ZTE (Thailand) Co., Ltd.	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	THB50 million	1,453.7	169.6	845.0	168.9	131.4
ZTE-Communication Technologies, Ltd.	Subsidiary	Communications services	Sales of communications products and engineering services	RUB23.18 million	361.1	(115.4)	374.2	(224.5)	(196.8)
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Subsidiary	Communications services	Sales of communications products and engineering services	RMB200 million	4,706.2	774.3	2,864.2	136.4	104.4
ZTE Telecom India Private Ltd.	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	USD50 million	2,988.5	(869.8)	1,669.6	71.6	71.9
ZTE Corporation Mexico S. DE R.L DE C.V.	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	USD5,000	1,132.0	(178.6)	1,233.7	(120.4)	(119.5)
ZTE (Malaysia) Corporation SDN. BHD	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	USD60,000	536.6	(21.8)	473.7	99.9	89.3
Zhongxing Telecom Pakistan (Private) Ltd.	Subsidiary	Communications and related equipment manufacturing	Sales of communications products and engineering services	RUB37,919,000	415.5	(43.7)	564.7	130.1	82.6

For information of other subsidiaries and principal investee companies, please refer to Note V 11.Long-term equity investments and Note VII to the financial report prepared in accordance with PRC ASBEs.

For the year, 12 subsidiaries reported change of more than 30% in operating results as compared with the same period last year with a significant impact on the consolidated operating results of the Company. Net profit of Zhongxing Software, ZTE HK, Shenzhen Zhongxing Telecom Technology & Service Company Limited and ZTE Corporation Mexico S. DE R.L DE C.V. decreased by 35.70%, 236.07%, 38.13% and 334.67%, respectively, as compared with the same period last year, mainly as a result of decreased gross profit; net profit of ZTE Kangxun, ZTE Microelectronics Technology Company Limited, ZTE ICT Company Limited and ZTE (Malaysia) Corporation SDN. BHD increased by 122.57%, 279.86%, 161.26% and 199.76%, respectively, as compared with the same period last year, mainly as a result of the increase in gross profit; net profit of ZTE-Communication Technologies, Ltd. decreased by 5,355.28% as compared with the same period last year mainly as a result of exchange rate volatility; net profit of ZTE (Thailand) Co., Ltd. and Zhongxing Telecom Pakistan (Private) Ltd. increased by 241.01% and 5,778.55%, respectively, as compared with the same period last year, mainly as a result of increased gross profit and exchange gains; net profit of ZTE Telecom India Private Ltd. increased by 124.88% as compared with the same period last year, mainly as a result of decreased exchange losses and increased interest income.

For details of subsidiaries acquired or disposed of during the year and their effect, please refer to Note VI to the financial report prepared in accordance with PRC ASBEs.

(5) Significant investments using funds other than issue proceeds

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

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

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

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

New subsidiaries established in 2014 included: tier-one subsidiaries 中興新能源汽車有限責任公司, 西安中興通訊終端科技有限公司, 中興健康科技有限公司, 深圳微品致遠信息科技有限公司 and 深圳市中興智谷科技有限公司; tier-two subsidiaries 河南中興網信科技有限公司, ZTE HK CORPORATION DOMINICAN REPUBLIC, SRL, 嘉興市興和創業投資管理有限公司, 淮安中興軟件技術有限公司, WEIXIANTONG INTERNATIONAL ANGOLA, LIMITADA, ZTE XIN (MACAO) LIMITED, 重慶中興網信科技有限公司, 江蘇中興豐創科技有限公司, ZTE CONGO S.A.R.L, ZTEICT International Co., Limited, 廣州中興軟創科技有限公司, ZTESOFT Deutschland Gmbh, 北京中興軟創軟件有限公司 and 山西中興網信科技有限公司; tier-three subsidiaries 嘉興市興和股權投資合夥企業, 河南中興智慧產業發展有限公司 and ZTE Managed Services Southern Europe SL; and a tier-four subsidiary ZTE SERVICE ROMANIA SRL.

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

17. *Profit distribution or conversion from capital reserve*

(1) Proposal for profit distribution and conversion from capital reserve of 2014

Audited net profit of the Company for the year 2014 calculated in accordance with PRC ASBEs amounted to RMB1,558,172,000. Together with undistributed profit of RMB128,756,000 carried forward at the beginning of the year and after deducting statutory surplus reserves of RMB155,817,000, profit available for distribution to shareholders amounted to RMB1,531,111,000.

Audited net profit of the Company for the year 2014 calculated in accordance with HKFRSs amounted to RMB1,616,476,000. Together with undistributed profit of RMB32,930,000 carried forward at the beginning of the year and after deducting statutory surplus reserves of RMB155,817,000, profit available for distribution to shareholders amounted to RMB1,493,589,000.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is RMB1,493,589,000. The Board of Directors of the Company has recommended as follows:

Proposed profit distribution for 2014: Cash dividend of RMB2.0 for every 10 shares (before tax) based on the Company's total share capital of 3,437,541,278 shares as at 31 December 2014.

Proposed conversion from capital reserve for 2014: the creation of 2 shares for every 10 shares by way of conversion of capital reserve, representing a total increase of 687,508,255 shares based on the Company's total share capital of 3,437,541,278 shares as at 31 December 2014. Fractional entitlements shall be dealt with in accordance with relevant rules of the stock exchange and the clearing house of the place where the stocks of the Company are listed. As a result, the actual amount of share capital increased by conversion of capital reserve and the actual number of shares created in aggregate after implementation of the proposed conversion from capital reserve might be slightly different from the aforesaid estimates.

As for H shareholders, please refer to the circular dated 9 April 2015 for withholding of income taxes on dividends paid to non-resident corporate shareholders and individual shareholders.

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

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

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

Aggregate profit distribution of the Company in the form of cash in 2012-2014 accounted for 163.42% of the annual average profit available for distribution in the past three years, in compliance with Article 234 of the Articles of Association (amended in June 2014) which states that "Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years."

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

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

Year	Profit distribution or conversion from capital reserve plan or proposal	Implementation
2014	The profit distribution and conversion from capital reserve proposal: Cash dividend of RMB2.0 for every 10 shares (before tax) based on the Company's total share capital of 3,437,541,278 shares as at 31 December 2014, creation of 2 shares for every 10 shares by way of conversion of capital reserve.	Subject to consideration and approval at the 2014 Annual General Meeting of the Company.
2013	The profit distribution plan: Cash dividend of RMB0.3 for every 10 shares (before tax) based on the Company's total share capital of 3,437,541,278 shares as at 31 December 2013.	Considered and approved at the 2013 Annual General Meeting of the Company.
2012	The profit distribution plan: No profit distribution or conversion from capital reserve was conducted by the Company.	Considered and approved at the 2012 Annual General Meeting of the Company.

Report of the Board of Directors

Details of cash dividend distribution 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
2014	68,750.83	263,357.10	26.11%	149,358.90
2013	10,312.62	135,765.70	7.60%	13,605.60
2012	—	(284,096.20)	—	(17,820.30)
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				163.42%

Note: There is no provision in the Articles of Association under which funds utilised in share repurchases by way of cash offer shall be deemed as cash dividend of the listed company.

18. For details of the Company's fulfillment of corporate social responsibility, please refer to the "2014 Sustainable Development Report" published on http://www.cninfo.com.cn on 26 March 2015.

The Company and its staff have been committed to rewarding the society and the cities and countries where the Company operates. In 2014, the Company continued to conduct community welfare projects under its brand name in line with its aim to "promote charity, fulfill social responsibility and advance community welfare development." Stronger efforts were made to integrate its community welfare resources and enhance the "ZTE Community Welfare Foundation" as well as to encourage and promote various types of philanthropist activities, in a bid to offer assistance to the underprivileged to the best of our ability in compassionate dedication to our society. We started a number of community welfare projects in aid for the underprivileged, disaster relief, environmental protection and incentives for technological development, which were operated in accordance with standardised rules and regulations, under improved organisational structures and with higher transparency. For details of our social welfare activities (including donations), please refer to the "2014 Sustainable Development Report" published by the Company on http://www.cninfo.com.cn on 26 March 2015.

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

During the year, the Company hosted 51 receptions of investors for research purposes, receiving 108 institutional investors but no individual investor or other researchers. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	January 2014	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2014	Hong Kong	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	February 2014	Shenzhen	Shenyin Wanguo investors' meeting	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	April 2014	Shenzhen	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	May 2014	Shanghai	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2014	Hong Kong	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	May 2014	Hong Kong	BNP investors' meeting	Customers of BNP	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Chengdu	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Shanghai	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Hubei	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Shanghai	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Hangzhou	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Beijing	Jefferies investors' meeting	Customers of Jefferies	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Beijing	JP Morgan investors' meeting	Customers of JP Morgan	Day-to-day operations of the Company	Published announcements and regular reports
	June 2014	Shenzhen	Maquarie Securities investors' meeting	Customers of Maquarie Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2014	Shanghai	Hua Chuang Securities investors' meeting	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shenzhen	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shanghai	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shenzhen	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Chengdu	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2014	Shenzhen	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	October 2014	Hong Kong	Credit Suisse investors' meeting	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	October 2014	Hong Kong	Jefferies investors' meeting	Customers of Jefferies	Day-to-day operations of the Company	Published announcements and regular reports
	November 2014	Macau	Citi Bank investors' meeting	Customers of Citi Bank	Day-to-day operations of the Company	Published announcements and regular reports
	November 2014	Beijing	Merrill Lynch investors' meeting	Customers of Merrill Lynch	Day-to-day operations of the Company	Published announcements and regular reports
	November 2014	Hong Kong	JP Morgan investors' meeting	Customers of JP Morgan	Day-to-day operations of the Company	Published announcements and regular reports
	November 2014	Beijing	Shenyin Wanguo investors' meeting	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	November 2014	Beijing	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Haikou	Galaxy Securities investors' meeting	Customers of Galaxy Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Shenzhen	China Merchant Securities investors' meeting	Customers of China Merchant Securities	Day-to-day operations of the Company	Published announcements and regular reports

Report of the Board of Directors

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
	December 2014	Shenzhen	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Shanghai	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Shanghai	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Beijing	Minsheng Securities investors' meeting	Customers of Minsheng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Sanya	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2014	Xiamen	Hua Chuang Securities investors' meeting	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company presentation	March 2014	Hong Kong	Results presentation	Analysts and investors	2013 Annual Report	Published announcements and regular reports
				Overseas investors		
Company visits by investors	January to December 2014	Company	Verbal	Teng Yue Partners, BOCI, Genesis Capital, China Orient AMC, 石壁投資, Mirae Asset Global Investment, Pine River, 睿柏資本, Ji-Asia, Mizuho Securities Asia Limited, JK capital, Kayak Investment Partners, CIMB, Capital International, Morgan Stanley, Public Mutual, Macquarie Securities, HI Asset Management, HSBC, Momentum Investments, Old Mutual Investment Group, Stanlib, Credit Suisse, Ashmore Equities Investment Management, Haitong International, ISI Group, Marvin&Palmer Associates, Inc., SMBC Friend Securities, Claw Capital, UBS Asset Management, AIA International Limited, SPARX Asia Investment Advisors Limited, Asiya Investment, Balyasny Asset Management, Guotai Jun'an (Hong Kong), AGF Investments, East Capital, Fidelity Investments, Thornourg Investment Management, Norges Bank, Resona Bank, UBS, Northcape Capital, Egerton Capital (UK) LLP, City National Rochdale Investment Management, HSBC Global Asset Management (Hong Kong) Limited, China Merchant (HK), Cantor Fitzgerald, CLSA, Nomura Securities, Amundi Asset Mgmt Hong Kong, DIAM Asset Management (HK), Boci-prudential Asset Management Ltd, Keywise Capital Management (HK) Ltd, Manulife Asset Management, 馬投諮詢有限公司	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	January to December 2014	Company	Verbal	Hua Tai United Securities, China AMC, Orient Securities Asset Management, Sealand Securities, 深圳盈泰投資, Huatai Financial Holdings, 拉芳投資, Guangfa Securities, China Merchant Securities, Guangzheng Hang Seng Securities, Rongheng Capital, Everbright Securities, Shenyin Wanguo, 新思路投資, CITIC Securities, Bosera Fund, Rongtong Fund, Invesco Great Wall, CCB Fund, Beijing Da Guan Investment, Hua Chuang Securities, CC Fund, Dacheng Fund, China Southern Asset Management, Changsheng Fund, Ping An Annuity, Guosen Securities, China Securities, Gintong, 深圳前海磐擔投資, Co-Power Capital Management, Xin Ding Fund, 廣東道澤投資, 深圳東方港灣投資管理, Minsheng Royal Fund Management, Tomorrow Holding, Tulip Capital, Lion Fund	Day-to-day operations of the Company	Published announcements and regular reports

(III) Business outlook for 2015 and risk exposures

1. Business outlook for 2015

Looking to 2015, the mobile inter-connection among all things will constitute the main theme underlying developments of the telecommunications industry. From traditional inter-personal communication, we have gradually progressed to communication between people and machines and communication between machines. Given the characteristic features of "omni-connection, omni-present cloud service and safe privacy," the traditional telecommunications industry will face challenges as well as opportunities in its development. In connection with carriers' networks, large-scale deployment, capacity expansion, performance optimisation, and in-depth coverage of 4G networks will drive new demand for investments in the telecommunications industry, as the 4G era has started in most markets around the globe. Meanwhile, carriers will need to accelerate the construction of pipeline intelligentization and "creating value out of information" will become our new opportunities. In connection with government and corporate networks, there will be sophisticated integration between the telecommunications industries and traditional industries, as opportunities relating to government and corporate networks will abound in the information revolution triggered by emerging technologies such as Cloud Computing, Big Data and high-power wireless charge. In connection with handset terminals, the new generation of handset terminals will feature a higher level of smart functions, flexibility and integration. Next-generation voice control technologies and handset security will also constitute new strategic focuses.

To address the aforesaid challenges and opportunities in 2015, the Group will focus on the three mainstream markets of "carriers, government and corporate sectors and consumers" under the theme of "capitalising on opportunities arising from macro-restructuring to create value out of information". Our business development will centre on "new sectors" such as smart voice, smart wireless charger, distributive on-grid power generation, big data platform and its applications, internet finance, and mobile payments, etc, seeking to achieve breakthroughs in profitability through innovations in technologies and business models.

2. Risk Exposures

(1) Country risk

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

(2) Risk associated with intellectual property rights

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

Report of the Board of Directors

(3) Exchange rate risk

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

(4) Interest rate risk

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

(5) Credit risk

The Group provides one-stop communications solutions to its customers. With the swift expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group seeks to mitigate the aforesaid impact by adopting various credit management measures, such as international customer credit rating, customer credit limit management, credit risk assessment for projects, credit control against customers with faulty payment records, the purchase of credit insurance and the transfer of credit risks through appropriate financial instruments, etc.

(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 2014 are set out in Note 33 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 41 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 39 to the financial statements prepared in accordance with HKFRSs and the section headed "Changes in shareholdings and information of shareholders (I) Changes in shareholdings during the year" in this report.

6. Competing interest

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

7. List of Directors

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

8. Taxation

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

Management Discussion and Analysis

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

Unit: RMB in millions

Profit or loss and other comprehensive income statement	**2014**	2013
Operating revenue:		
Carriers' networks	**46,768.2**	40,695.7
Handset terminals	**23,117.1**	21,702.1
Telecommunication software systems, services and other products	**11,586.0**	12,835.9
Total revenue	**81,471.3**	75,233.7
Cost of sales	**(57,759.0)**	(54,775.1)
Gross profit	**23,712.3**	20,458.6
Other income and gains	**4,561.2**	4,905.3
Research and development costs	**(9,008.5)**	(7,383.9)
Selling and distribution expenses	**(10,391.6)**	(10,158.5)
Administrative expenses	**(2,138.1)**	(2,258.7)
Other expenses	**(1,582.3)**	(2,119.1)
Profit from operating activities	**5,153.0**	3,443.7
Finance costs	**(1,561.7)**	(1,650.4)
Share of profit and loss of joint ventures and associates	**(53.0)**	34.5
Profit before tax	**3,538.3**	1,827.8
Income tax expense	**(810.6)**	(394.2)
Net profit	**2,727.7**	1,433.6
Attributable to:		
Non-controlling interests	**(94.1)**	(76.0)
Attributable to:		
Shareholders of parent company	**2,633.6**	1,357.6
Other comprehensive income	**(333.6)**	(279.3)
Comprehensive income	**2,394.1**	1,154.3
Dividend	**687.5**	103.1
Earnings per share — Basic	**RMB0.77**	RMB0.39
— Diluted	**RMB0.77**	RMB0.39

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

	2014		2013	
Product segment	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carriers' networks	**46,768.2**	**57.4%**	40,695.7	54.1%
Handset terminals	**23,117.1**	**28.4%**	21,702.1	28.8%
Telecommunication software systems, services and other products	**11,586.0**	**14.2%**	12,835.9	17.1%
Total	**81,471.3**	**100.0%**	75,233.7	100.0%

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

Unit: RMB in millions

	2014		2013	
Region	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**40,583.5**	**49.8%**	35,636.0	47.4%
Asia (excluding the PRC)	**12,131.6**	**14.9%**	13,849.5	18.4%
Africa	**6,174.2**	**7.6%**	5,866.0	7.8%
Europe, the Americas and Oceania	**22,582.0**	**27.7%**	19,882.2	26.4%
Total	**81,471.3**	**100.0%**	75,233.7	100.0%

The Group reported RMB81,471.3 million in operating revenue for 2014, improving by 8.3% as compared with last year. Operating revenue generated from the domestic business amounted to RMB40,583.5 million, increasing by 13.9% as compared with last year. Operating revenue generated from the international business also rose by 3.3%, as compared with last year, to RMB40,887.8 million.

Analysed by product segment, year-on-year growth of operating revenue was reported for carriers' networks and handset terminals, while decline was reported for telecommunication software systems, services and other products. The increase in operating revenue from the Group's carriers' networks for 2014 reflected mainly the increase in operating revenue from 4G system products, routers and switches in the domestic and international markets, as well as optical communication system products in the domestic market. The increase in operating revenue from the Group's handset terminals for 2014 reflected mainly the increase in operating revenue generated from 4G handsets in the domestic and international markets. The decrease in operating revenue from the Group's telecommunication software systems, services and other products for 2014 mainly reflected the decline in operating revenue from international services.

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

	2014		2013	
Product segment	**Cost of sales**	**As a percentage of product segment revenue**	Cost of sales	As a percentage of product segment revenue
Carriers' networks	**30,137.6**	**64.4%**	26,612.8	65.4%
Handset terminals	**19,603.5**	**84.8%**	18,523.1	85.4%
Telecommunication software systems, services and other products	**8,017.9**	**69.2%**	9,639.2	75.1%
Total	**57,759.0**	**70.9%**	54,775.1	72.8%

Management Discussion and Analysis

Unit: RMB in millions

	2014		2013	
Product segment	**Gross profit**	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**16,630.6**	**35.6%**	14,082.9	34.6%
Handset terminals	**3,513.6**	**15.2%**	3,179.0	14.6%
Telecommunication software systems, services and other products	**3,568.1**	**30.8%**	3,196.7	24.9%
Total	**23,712.3**	**29.1%**	20,458.6	27.2%

Cost of sales of the Group for 2014 increased by 5.4% as compared to last year to RMB57,759.0 million. The Group's overall gross profit margin of 29.1% was 1.9 percentage points higher as compared to last year, reflecting mainly higher gross profit margins for carriers' networks, handset terminals and telecommunication software systems, services and other products.

Cost of sales of the Group's carriers' networks for 2014 amounted to RMB30,137.6 million, a 13.2% increase as compared to last year. The relevant gross profit margin was 35.6% versus 34.6% for last year. The increase in gross profit margin of carriers' networks mainly reflected growth in gross profit margin of 4G system products in the domestic and international markets, which accounted for a significant share in segment revenue.

Cost of sales of the Group's handset terminals for 2014 amounted to RMB19,603.5 million, an increase of 5.8% as compared to last year. The relevant gross profit margin was 15.2% versus 14.6% for last year. The improvement in gross profit margin for handset terminals was in tandem with the increase in gross profit margin for 4G handsets in the domestic and international markets.

Cost of sales of the Group's telecommunication software systems, services and other products for 2014 amounted to RMB8,017.9 million, decreasing by 16.8% as compared to last year. The relevant gross profit margin was 30.8%, compared to 24.9% for last year. The increase in gross profit margin for telecommunication software systems, services and other products was mainly attributable to improved gross profit margin for video and network terminals products, which accounted for a significant share in segment revenue.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2014 amounted to RMB4,561.2 million, representing a 7.0% decrease compared to RMB4,905.3 million for 2013. The decrease reflected mainly gains resulting from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. by the Group for the same period last year and the absence of such transaction for the current period.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2014 increased by 22.0% to RMB9,008.5 million from RMB7,383.9 million for 2013, and rose by 1.3 percentage points from 9.8% for 2013 to 11.1% for 2014 as a percentage of operating revenue, attributable mainly to the Group's increased investment in the research and development of products such as 4G, 5G, high-end routers and core critical chips for the period.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for 2014 increased by 2.3% to RMB10,391.6 million from RMB10,158.5 million for 2013, reflecting mainly the combined effect of increased investments in the European and American markets and decreased investments in the African market for the period. Selling and distribution expenses as a percentage of operating revenue dropped by 0.7 percentage points to 12.8% for 2014, compared to 13.5% for 2013.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2014 decreased by 5.3% to RMB2,138.1 million, as compared to RMB2,258.7 million for 2013, mainly attributable to the Group's enhanced control over administrative expenses during the period. Administrative expenses as a percentage of operating revenue decreased by 0.4 percentage points from 3.0% for 2013 to 2.6% for 2014.

OTHER EXPENSES

Other expenses of the Group for 2014 decreased by 25.3% to RMB1,582.3 million, as compared to RMB2,119.1 million for 2013, reflecting mainly the decrease in bad debt provisions and the decrease in losses arising from exchange rate volatility for the period.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2014 increased to RMB5,153.0 million, as compared to RMB3,443.7 million for 2013, while the operating profit margin increased from 4.6% for 2013 to 6.3% for 2014, primarily as a result of higher overall gross profit margin and gross profit of the Group for the period.

FINANCE COSTS

Finance costs of the Group for 2014 decreased by 5.4% to RMB1,561.7 million as compared to RMB1,650.4 million for 2013, reflecting mainly the Group's effort to strengthen treasury management, adjust its debt structure and vigorously explore low-cost financing channels in overseas markets for the period.

INCOME TAX EXPENSE

The Group's income tax expense for 2014 was RMB810.6 million, which was 105.6% higher as compared to RMB394.2 million for 2013, reflecting mainly the increase in the Group's profit for the period.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for 2014 amounted to RMB94.1 million, representing an increase of 23.8% as compared to RMB76.0 million for 2013, mainly attributable to the increase in the profit of certain subsidiaries of the Group for the period.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2014 decreased by 19.4% to RMB-333.6 million, compared to RMB-279.3 million for 2013, mainly reflecting losses arising from change in the fair value of the Group's available-for-sale financial assets for the period compared to gains for the same period last year.

Management Discussion and Analysis

CAPITAL MANAGEMENT POLICY

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

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

The Group's debt-equity ratio for 2014 was 55.0%, decreasing by 2.9 percentage points as compared to 57.9% for 2013. The decrease was mainly attributable to the increase in reserve from operating profit of the Group for the period.

LIQUIDITY AND CAPITAL RESOURCES

In 2014, 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 2014 amounted to RMB17,230.1 million.

CASH FLOW DATA

Unit: RMB in millions

	2014	2013
Net cash inflow from operating activities	**1,101.9**	446.9
Net cash outflow from investing activities	**(2,022.3)**	(1,171.0)
Net cash outflow from financing activities	**(1,915.9)**	(1,045.1)
Net decrease in cash and cash equivalents	**(2,836.3)**	(1,769.2)
Cash and cash equivalents at year-end	**17,230.1**	20,118.3

OPERATING ACTIVITIES

The Group reported net cash inflow from operating activities of RMB1,101.9 million for 2014, compared to RMB446.9 million for 2013, mainly reflecting year-on-year increase in cash received from sales of goods and provision of services by RMB7,783.5 million, increase in other cash receipts relating to operating activities by RMB652.2 million, decrease in tax refund received by RMB853.5 million, increase in cash paid for the purchase of goods and services by RMB4,948.3 million, increase in cash payments to and on behalf of employees by RMB765.7 million, increase in payments of tax expenses by RMB806.3 million, increase in other cash payments relating to operating activities by RMB234.0 million, and increase in cash payments relating to dividend distribution or interest repayment by RMB173.0 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB2,022.3 million for 2014 and RMB1,171.0 million for 2013, reflecting mainly cash received following the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. by the Group for the same period last year and the absence of such transaction for the current period.

FINANCING ACTIVITIES

The Group's net cash outflow from financing activities for 2014 was RMB1,915.9 million, compared to RMB1,045.1 million for 2013, reflecting mainly the combined effect of the increase in cash paid for debt settlement by RMB17,248.6 million and the increase in cash received from borrowings by RMB16,142.5 million for the period.

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	2014	2013
Purchases of fixed assets and increase of construction in progress payments	**1,007.1**	904.1

The Group's capital expenditure for 2014 amounting to RMB1,007.1 million was mainly used for the construction work of Xi'an Research and Development Centre, Nanjing Research and Development Centre, staff quarters in Shenzhen and Nanjing, equipment installation projects and purchases of machinery and equipment, etc.

INDEBTEDNESS

Unit: RMB in millions

	31 December	
Item	2014	2013
Secured bank loans	**606.6**	890.3
Unsecured bank loans	**20,474.2**	19,838.3

Unit: RMB in millions

	31 December	
Item	2014	2013
Short-term bank loans	**11,041.1**	15,343.0
Long-term bank loans	**10,039.7**	5,385.6

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

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

The Group's bank loans in 2014 increased by RMB352.2 million over previous year and were mainly applied to provide additional working capital.

Management Discussion and Analysis

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

		31 December 2014		
Item	**Total**	Less than 1 year	2-5 years	More than 5 years
Bank loans	**21,080.8**	11,041.1	10,039.7	—
Operating lease obligation	**518.9**	282.5	234.2	2.2

CONTINGENT LIABILITIES

Unit: RMB in millions

	31 December	
Item	**2014**	2013
Guarantees given to banks in connection with borrowings to customers	**63.7**	46.3
Guarantees given to banks in respect of performance bonds	**7,459.0**	7,022.3
Total	**7,522.7**	7,068.6

CAPITAL COMMITMENTS

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

Unit: RMB in millions

	31 December	
Item	**2014**	2013
Land and buildings:		
Contracted, but not provided for	**214.4**	264.3
Investment in associates:		
Contracted, but not provided for	**5.2**	17.3
Land and buildings:		
Authorised, but not contracted	**21,897.5**	21,566.5

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

Details of the subsidiaries, joint ventures and associates of the Group as at 31 December 2014 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

No material acquisitions and disposals related to subsidiaries of the Group were conducted in 2014. Details of the progress of disposals related to subsidiaries of the Group in the previous years are set out in the section headed "Material Matters — (IV) Asset Transactions" in this report.

PROSPECTS FOR NEW BUSINESS

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

EMPLOYEES

Details of the number of employees, training programmes, remuneration, remuneration policy, bonus and the share option scheme of the Group as at 31 December 2014 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees," "Corporate Governance Structure" and "Material Matters — (V) Implementation and Impact of the Company's Share Option Incentive Scheme" in this report.

CHARGES ON ASSETS

Details of the Group's charges on assets as at 31 December 2014 are set out in Note 33 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 2014 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 2015 and risk exposures."

Material Matters

(I) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material Litigation and Arbitration

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

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

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

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

(2) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB47,228,500). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB20,305,700) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

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

(3) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, 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. Nanshan 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 in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company.

In October and November 2009, the Company further instituted two lawsuits with Nanshan 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 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 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 Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company.

In July 2014, China Construction Fifth Division instituted a lawsuit with Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

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

Material Matters

(4) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

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

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

On 9 May 2011, ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, received a provisional injunction order against ZTE Deutschland in respect of "labelled data cards" awarded by the District Court of Hamburg, Germany based on an application by Huawei. For details please refer to the "Announcement on Litigation" of the Company dated 12 May 2011. In response to the aforesaid provisional injunction order, ZTE Deutschland had filed a dissent with the District Court of Hamburg, Germany. On 1 October 2011, the Company received a ruling of the District Court of Hamburg, Germany in favor of Huawei's application for the said provisional injunction order. On 27 October 2011, ZTE Deutschland appealed to the District High Court of Hamburg, Germany in respect of the ruling 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. ZTE Deutschland has reached a settlement with Huawei and the injunction order and infringement litigation procedures have closed.

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

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

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

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

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

Material Matters

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

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

(7) On 29 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, a wholly-owned subsidiary of ZTE. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict, and the appeal process has currently been suspended. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. Court hearing in respect of the remaining patent involved has been postponed to April 2015. The Company and ZTE USA have engaged a legal counsel to conduct active defense of the case and will consider whether to file an appeal based on the verdicts on the four patents involved in the litigation.

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

(8) On 9 December 2011, the Company and ZTE USA received a petition for arbitration filed by four USA companies and a natural person (together "CLEARTALK") with the International Center for Dispute Resolution under the American Arbitration Association ("ICDR"), whereby CLEARTALK alleged that the Company and ZTE USA had committed acts of breach of contract and fraud, and demanded cancellation of contract and refund of payments and compensation with an aggregate amount of over USD10 million. On 28 December 2011, the Company and ZTE USA received a revised petition for arbitration filed by CLEARTALK with ICDR, whereby CLEARTALK demanded, in respect of the same case, a USD300 million compensation together with the reimbursement of legal fees, litigation costs and other compensation deemed appropriate by the arbitration court.

On 12 October 2012, the Company and ZTE USA filed a defense and a counter-claim with ICDR, alleging that CLEARTALK had committed breach of contract, fraud and abuse of litigation rights and had seriously compromised the interests of the Company.

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

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

(9) On 3 January 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (equivalent to approximately RMB173 million). On 20 January 2012, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provided that the agreement should apply to ICMS tax incurred prior to May 2009, ZTE Brazil was not required to pay further ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the 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 tax or made a remedial payment thereof and recommended suspension of execution of the notice of administrative penalty. On 13 January 2014, the tax bureau of Sao Paulo State resolved to rescind the aforesaid administrative penalty notice with effect from 1 June 2014 pursuant to Order No. 56045/2010 and Administrative Regulation No. CAT154/2010. On 4 June 2014, the tax bureau of Sao Paulo State resolved to officially rescind the aforesaid administrative penalty.

Material Matters

On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB223 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

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

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

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

(11) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon

the patents relating to the case and had not violated Section 337. Currently, the litigation procedure at the Federal District Court of California has been resumed. There has been no substantial progress in the litigation process.

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

(12) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB72,530,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB192 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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

(13) October 2013 and December 2013, Pragmatus Mobile LLC, a U.S. company, filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its maps and wifi-related patents. Defendants in the case included other companies in the industry. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. Pragmatus Mobile LLC has withdrawn its claim after reaching a settlement deal with the Company and ZTE USA.

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

(14) In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH ("ZTE Service"), a wholly-owned subsidiary of the Company. As the UMTS products

of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

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

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

In June 2014, Vringo filed a patent litigation with the Court of Bucharest, Romania against the Company and ZTE Romania SRL ("ZTE Romania"), a wholly-owned subsidiary of the Company, pleading for the LTE products of the Company and ZTE Romania supporting Circuit Switched Fall Back functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In September 2014, the Court of Bucharest issued a provisional injunction order against ZTE Romania in respect of LTE products, and ZTE Romania filed an appeal to the Court of Appeal of Bucharest. In October 2014, the Court of Appeal of Bucharest ruled to suspend the provisional injunction order.

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

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

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2014 where PKR amounts are translated at the exchange rate of PKR1:RMB0.0619 and BRL amounts are translated at the exchange rate of BRL1:RMB2.3133.

2. General Media Queries

☐ Applicable ✓ N/A

(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 the Overseas Regulatory Announcement published by the Company on 25 March 2015.

(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, disposal or business merger commencing or subsisting during the year. Details of progress of asset disposal disclosed by the Group are as follows:

On 16 November 2012, the Company and CCB International (Shenzhen) Investment Co., Ltd. ("CCBI") entered into the "Equity Transfer Agreement for the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" (the "Former Equity Transfer Agreement"), pursuant to which the Company would, among other things, transfer its 30% equity interests in Shenzhen Changfei Investment Company Limited ("Changfei") to CCBI and provide an undertaking of compensation in respect of the operating results of Changfei for the years 2012 to 2016. For details, please refer to the "Discloseable Transactions - Disposal of Equity Interest in Shenzhen Changfei Investment Company Limited" published by the Company on 16 November 2012.

On 23 December 2014, the Company and CCBI entered into the "Variation of the Equity Transfer Agreement in relation to the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" (the "Variation Agreement"), pursuant to which the Company agreed to the transfer by CCBI of its 30% equity interests in Changfei to a third party not related to the Company. The undertaking of compensation and other obligations of ZTE under the Former Equity Transfer Agreement shall automatically be terminated as from the date on which the transfer consideration is received by CCBI from the third party. The aforesaid matter was considered and approved at the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014.

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

1. Summary of the Scheme

(1) Objective

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

Material Matters

(2) Scheme participants and their adjustments

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

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

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

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

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

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

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

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

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

(5) Exercise price and basis of determination

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

The above exercise price is the higher of the following:

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

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

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

Material Matters

(6) Approval procedures fulfilled

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

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

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

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

3. Valuation and accounting policies relating to the share options

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

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

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

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

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

The cost of the share options will be charged to operating profit or loss. The accounting policies relating to the share options and their impact on the financial position and operating results of the Company have been set out in Note XI to the financial statements prepared in accordance with PRC ASBEs and Note 40 to the financial statements prepared in accordance with HKFRSs.

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

The Scheme of the Company was under normal operation during the year.

(VI) INFORMATION ON THE CORPORATE BONDS OF THE COMPANY

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

The corporate bond interest payment for 2014 was completed on 13 June 2014 and the total amount of interest payment made was RMB252 million (before tax). For details please refer to the Overseas Regulatory Announcement published by the Company on 4 June 2014.

As at 31 December 2014, there were 228 holders of Corporate Bonds of the Company, the top ten of which were as follows:

No.	Name of bond holders	Number of bonds held	Bond holding ratio
1	China Merchants Bank Co., Ltd.	10,000,000	16.67%
2	Industrial and Commercial Bank of China Limited	9,300,000	15.50%
2	China Construction Bank Corporation	9,300,000	15.50%
4	Bank of Communications — ICBC Credit Suisse Pure Bond Fixed-term Open-ended Bond Fund	5,160,000	8.60%
5	Sha Dinan	1,847,816	3.08%
6	China Merchants Securities Co., Ltd.	1,597,205	2.66%
7	Bank of China Investment Management — BOC — Bank of China Limited	1,241,882	2.07%
8	China Merchants Bank Co., Ltd.-BOC Stable Profit and Dividend Bond Fund	1,201,051	2.00%
9	China Merchants Bank Co., Ltd.- BOC Multi-strategic Flexible Allocation Hybrid Fund	1,022,991	1.70%
10	NSSF Portfolio #409	1,000,000	1.67%

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

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

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

(VIII) REGISTRATION AND ISSUE OF PERPETUAL MEDIUM TERM NOTE BY THE COMPANY

To further facilitate the Company's business development and optimise its debt structure, the Company has proposed to apply to the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) for the registration and issue of perpetual medium term note with an amount of not more than RMB 9 billion. The perpetual medium term note (the "Medium Term Note") is a medium term note under which the issuer does not specify due dates but has the options of redeeming the note and deferring interest payments, while creditors are, usually, not entitled to demand redemption but are entitled to interest payments as agreed.

The aforesaid matter was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the "Announcement of Resolutions of the Twentieth Meeting of the Sixth Session of the Board of Directors" and "Announcement on Resolutions of the First Extraordinary General Meeting of 2014" published on 22 August 2014 and 15 October 2014, respectively, by the Company. The National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) has admitted the RMB9 billion Medium Term Note of the Company for registration. For details please refer to the "Announcement on the Approval of Registration for the Issue of Medium Term Notes" published by the Company on 15 December 2014.

On 27 January 2015, the Company completed the issue of tranche one of the 2015 Medium Term Notes for an issue amount of RMB6 billion. For details please refer to the "Announcement on the Result of the Medium Term Notes Issue" published by the Company on 27 January 2015. On 6 February 2015, the Company completed the issue of tranche two of the 2015 Medium Term Notes for an issue amount of RMB1.5 billion. For details please refer to the "Announcement on the Result of the Medium Term Notes Issue" published by the Company on 6 February 2015.

(IX) SIGNIFICANT CONNECTED TRANSACTIONS

1. SIGNIFICANT CONNECTED TRANSACTIONS UNDER APPLICABLE LAWS AND REGULATIONS OF THE PRC

(1) Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represented continuing connected transactions in 2014 that reached the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Material Matters

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB30,000 per unit; cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	54,081.50	1.11%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party		Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features.	78,210.67	1.60%	Commercial acceptance bill	N/A	29 December 2012	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	2,592.71	0.05%	Tele-transfer	N/A	21 January 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Nanchang Software	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	2,793.78	0.06%	Tele-transfer	N/A	21 January 2014 24 October 2014	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"; Announcement No. 201446 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Single room: RMB240-380/night; Double room: RMB240-380/night; Suite: RMB500-600/night. The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	3,450.25	0.07%	Tele-transfer	N/A	27 April 2013 30 May 2014	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange
Zhongxing Development	A Company for which the Chairman of the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of 25 ground level parking spaces and 138 underground parking spaces by the Company from the connected party		Monthly rent of RMB130/sq.m.; monthly rent of ground level parking spaces of RMB150 each; monthly rent of underground parking spaces of RMB500 each. (Property management undertaken by ZTE and no management fees are payable.)	4,293.14	5.55%	Tele-transfer	N/A	2012-12-29	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Chongqing Zhongxing Development	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. by the Company from the connected party		Monthly rent of RMB45/sq.m. and RMB40/sq.m. for the office and cafeteria respectively and monthly management fee of RMB2.5/sq.m.	803.06	1.04%	Tele-transfer	N/A	2011-12-14	Announcement No 201153 "Announcement of Connected Transaction"

Material Matters

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Six months ended 30 June 2014: Rent: RMB34/sq.m./month for hotel in Dameisha in Shenzhen; RMB27/sq.m./month for hotel in Nanjing; RMB55/sq.m./month for hotel in Shanghai; and RMB24/sq.m./month for hotel in Xi'an. Rental fee for related equipment and facilities will be based on the monthly rate of depreciation of assets. Six months ended 31 December 2014: Rent: RMB68/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB42/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB110/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB41/sq.m./month for hotel and related equipment and facilities in Xi'an.	5,618.73	23.22%	Tele-transfer	N/A	2013-4-27 2014-5-30	Announcement No. 201322 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Financial services	The provision of deposit services by ZTE Group Finance to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	5,100.88[Note 1]	1.10%	Tele-transfer	N/A	2014-5-30	Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
航天歐華	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	40,539.74	0.50%	Tele-transfer or bank acceptance bill	N/A	2014-1-21	Announcement No. 201403 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company concurrently acted as chairman	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system, smart military camp and government/corporate IT systems		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	106	0.00%	Tele-transfer	N/A	2014-10-24	Announcement No. 201446 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–		**197,590.46**	**N/A**	–	–	–	–

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2014 be capped at RMB1,000 million (before VAT); At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2014 be capped at RMB800 million (before VAT); At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2014 be capped at RMB82 million and RMB18 million, respectively (before VAT); At the Twenty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 23 October 2014, it was considered and approved that the estimated cap for purchases from Nanchang Software, a connected party, by the Company in 2014 be revised to RMB45 million (before VAT); and the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2014 be capped at RMB28.50 million (before VAT); At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015; At the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company held on 13 December 2011, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB11.40 million for a term commencing on 1 January 2012 and ending on 31 December 2014;

Material Matters

	At the Second Meeting of the Sixth Session of the Board of Directors of the Company held on 26 April 2013, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2013 and ending on 30 June 2014; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB48 million for the period commencing on 1 July 2013 and end on 30 June 2014; at the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2014 and ending on 30 June 2015; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB75 million for the period commencing on 1 July 2014 and end on 30 June 2015; At the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2014 shall be capped at RMB54 million; At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, it was considered and approved that the estimated sales of digital communications products and communications products to 航天歐華 by the Company in 2014 be capped at RMB600 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

Note 1: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the year ended 31 December 2014.

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

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

(2) The Company did not conduct any connected transactions arising from asset acquisitions or disposals during the year

(3) Connected transactions of the Company involving joint investment in third parties during the year

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

(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.

(5) Other connected transactions

At the Twenty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 23 October 2014, the following connected transactions were considered and passed (for details, please refer to the Overseas Regulatory Announcement published by the Company on 23 October 2014):

The estimated sales of digital communications products and communications products to 航天歐華 by the Company in 2015 be capped at RMB1,000 million (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, the following connected transactions were considered and passed (for details, please refer to the Overseas Regulatory Announcement published by the Company on 23 December 2014):

① The estimated purchases of software outsourcing services from Huatong by the Company in 2015-2017 be capped at RMB60 million, RMB67 million and RMB75 million, respectively (before VAT);

② The estimated purchases of software outsourcing services from Nanchang Software by the Company in 2015-2017 be capped at RMB51 million, RMB63 million and RMB79 million, respectively (before VAT);

③ The estimated sales of products and rendering of services to Nanchang Software by the Company in 2015-2017 be capped at RMB29 million, RMB30 million and RMB31 million, respectively (before VAT);

④ The annual rent payable by Chongqing Zhongxing Software Company Limited to Chongqing Zhongxing Development for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017.

2. Continuing connected transactions under the Hong Kong Listing Rules

In accordance with Chapter 14A of the Hong Kong Listing Rules, the following connected transactions are required to be disclosed in this report. Details of related parties under HKFRSs are set out in Note 48 to the financial statements prepared under HKFRSs. Save as disclosed herein below, there were no other connected transactions which should be deemed as “connected transactions” or “continuing connected transactions” as defined under Chapter 14A of the Hong Kong Listing Rules and disclosed in accordance with the requirements of Chapter 14A of the Hong Kong Listing Rules.

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

Material Matters

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

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

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

- *Total transaction amount in 2014:*

Approximately RMB540,815,000

- *Price and other terms:*

As 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 "Zhongxingxin Purchase Framework Agreement" was entered into between the Group and Zhongxingxin dated 28 December 2012 in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries effective from 1 January 2013 to 31 December 2015 with the purchase amounts for 2013-2015 capped at RMB900 million, RMB1,000 million and RMB1,100 million (before VAT), respectively.

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

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin and its subsidiaries from time to time, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery schedules, locations and modes, as well as other contract details. The annual cap for purchase in 2014 was estimated at RMB1,000 million (before VAT).

- *Purpose of the transaction:*

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

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

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

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

(X) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

2. Third-party guarantees of the Group

(1) Third-party guarantees entered into during the year

A. Guarantee provided for joint tender partnership

To facilitate the participation in the tender for the Zambia Digital Migration Project Phase I of Zambian Ministry of Information and Broadcasting Services (the "Project"), the Company proposed to provide a Letter of Guarantee for Tender with an amount of ZMW1 million (equivalent to approximately USD160,000 based on the foreign currency statement book exchange rate of the Company as at 31 December 2014) for the joint tender partnership, namely the Company and Arelis Broadcast SAS of France, in respect of the bidding and evaluation process for the Project. For details, please refer to the "Announcement on Third-party Guarantee" published by the Company on 10 February 2014.

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

The aforesaid Letter of Guarantee for Tender was issued in February 2014. As at the end of the year, the aforesaid Letter of Guarantee for Tender had been withdrawn and the guarantee obligations of the Company had been released.

Material Matters

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

In order to further optimise the long-term and short-term debt structure of the Company and the subsidiaries included in its consolidated financial statements, reduce exposure to assets and liabilities denominated in foreign currencies, and meet additional working capital requirements for the Company's medium/long-term development at appropriate finance costs, the Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK for a guarantee term of not more than 5 years (from the date on which the debt financing agreement comes into effect), in order to secure debt financing at favourable costs. To avoid interest rate risks associated with the aforesaid debt financing, ZTE HK proposed to conduct interest rate swap transactions with a nominal principal amount of not more than USD600 million at selected timing.

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

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

C. Provision of guarantee for ZTE HK

In order to reduce the debt financing cost of the Company and the subsidiaries included in its consolidated financial statements and meet additional working capital requirements of the Company, the Company proposed to seek debt financing (including but not limited to bank facilities and the issue of corporate bonds) of not more than RMB2,000 million in the overseas market with ZTE HK, its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company would provide guarantee for ZTE HK by way of joint liability assurance for an amount of not more than RMB2,000 million in relation to the aforesaid debt financing of ZTE HK for a term of not more than three years (from the date on which the resolution of the General Meeting takes effect), in order to secure debt financing at favourable costs.

The aforesaid matter was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the "Announcement of Resolutions of the Twentieth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" published on 22 August 2014 and "Announcement on Resolutions of the First Extraordinary General Meeting of 2014" published on 15 October 2014 by the Company.

In December 2014, ZTE HK (as borrower) entered into a RMB1,500 million syndicate loan agreement with Bank of China Corporation, London Branch ("BOC London"). At the same time, the Company (as guarantor) entered into a guarantee agreement with BOC London to provide joint liability assurance for an amount of not more than RMB1,500 million in favour of the lending banks to guarantee ZTE HK's due performance of obligations for the payment of the loan principal, interest, fees, expenses and other amounts payable under the syndicate loan agreement.

D. Provision of guarantee for ZTE Malaysia

ZTE proposed to provide joint liability guarantee for ZTE (MALAYSIA) CORPORATION SDN BHD ("ZTE Malaysia"), a wholly-owned subsidiary, in respect of the performance obligations under the "CONTRACT FOR THE DELIVERY, SUPPLY, INSTALLATION, TESTING AND COMMISSIONING OF EQUIPMENT AND SOFTWARE AND PROVISION OF SERVICES FOR U MOBILE'S 3G/LTE SYSTEM" (the "UM Wireless Capacity Expansion Contract") for an amount of not more than USD20 million, for a term commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed. In addition, ZTE also proposed to apply to the relevant bank for the issuance of a bank letter of guarantee to provide guarantee for a maximum amount of USD2 million, on a cumulative basis, in respect of the performance obligations by ZTE Malaysia under the "UM Wireless Capacity Expansion Contract," for an effective term of not more than three years from the date on which the bank letter of guarantee comes into effect upon issuance.

The aforesaid guarantee was considered and approved at the Twenty-first Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the "Announcement of Resolutions of the Twenty-first Meeting of the Sixth Session of the Board of Directors" and "Announcement on Third-party Guarantee" published on 23 September 2014 and "Announcement on Resolutions of the First Extraordinary General Meeting of 2014" published on 15 October 2014 by the Company.

As at the end of the year, the USD20 million performance guarantee provided by the Company for ZTE Malaysia had come in effect. The USD2 million bank letter of guarantee issued by relevant banks, applied for by the Company on behalf of ZTE Malaysia, came into effect in January 2015.

Material Matters

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

Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Djibouti Telecom S.A.	19 April 2007 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Zena Technologies & Telecommunication Systems Co. WLL Note 1	18 December 2013 201375	KWD0.82 million	25 January 2014	KWD0.82 million	Guarantee by pledge	Commencing on the date of submission of the tender for the GPON Project II of the Ministry of Communications of Kuwait and ending on the date of announcement of the tender award for the project.	No	No
Joint tender partnership between the Company and Arelis Broadcast SAS of France Note 2	11 February 2014 201406	ZMW1 million	10 February 2014	ZMW1 million	Assurance	Commencing on the date of issuance of the Letter of Guarantee for Tender and ending on: (1) the receipt by the guarantor of a copy of contract signed by the joint tender partnership and the issue of a performance guarantee letter in accordance with the instructions of the joint tender partnership in the event of a successful bid by the joint tender partnership; or (2) the earlier of: A. the receipt by the guarantor of a notice issued by the beneficiary to the joint tender partnership notifying the names of the successful bidders; and B. 28 days after the expiry of the joint tender partnership's bid, in the event of an unsuccessful bid by the joint tender partnership; or (3) 10 August 2014.	Yes	No
湖南中興網信科技有限公司Note 3	N/A	RMB25 million	29 May 2014	Approximately RMB7.30 million	Joint liability	24 June 2014 to 29 September 2014	Yes	No
Shenzhen Zhongxing ICT Company Limited (深圳中興網信科技有限公司) Note 4	N/A	RMB160 million	30 December 2014	RMB160 million	Joint liability	5 years from the date of issue of the loan	No	No

Total amount of third-party guarantee approved during the reporting period (A1)	RMB185,976,800	Total amount of third-party guarantee actually incurred during the reporting period (A2)	RMB185,667,100
Total amount of third-party guarantee approved as at the end of the reporting period (A3)	RMB227,390,300	Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)	RMB227,390,300

Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Closed Joint-Stock Company CJSC TK Mobile [Note 5]	12 May 2009 200917	USD70.60 million	N/A	–	Pledge of equity	–	No	No
PT. ZTE Indonesia [Note 5]	6 June 2009 200926	USD40 million	10 June 2009	USD40 million	Joint liability	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under "Framework Agreement for Technical Support" is completed	Yes	No
PT. ZTE Indonesia [Note 5]	6 June 2009 200926	USD5 million	17 June 2009	USD5 million	Joint liability	3.5 years or from maturity to the date on which performance of obligations of ZTE and PT. ZTE Indonesia under the "Framework Agreement for Equipment Purchase" and "Framework Agreement for Technical Support" is completed, whichever later	Yes	No
ZTE (H.K.) Limited [Note 6]	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD450 million [Note 6]	Joint liability assurance	From the effective date of the assurance guarantee to the expiry of 60 months from the date of the facility agreement	No	No
ZTE France SASU [Note 7]	14 December 2011 201152	EUR10 million	N/A	–	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	No	No
PT. ZTE Indonesia [Note 8]	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No	No
PT. ZTE Indonesia [Note 8]	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed (whichever is later)	No	No
ZTE (H.K.) Limited [Note 9]	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014	USD450 million	Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	No	No
ZTE (H.K.) Limited [Note 10]	23 August 2014 201435	RMB2,000 million	30 December 2014	RMB1,500 million	Joint liability assurance	Not more than 3 years (from the date on which the resolution of the General Meeting takes effect)	No	No
ZTE (MALAYSIA) CORPORATION SDN BHD [Note 11]	24 September 2014 201440	USD20 million	27 November 2014	USD20 million	Joint liability	Commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed.	No	No
ZTE (MALAYSIA) CORPORATION SDN BHD [Note 11]	24 September 2014 201440	USD2 million	N/A	–	Joint liability	Not more than 3 years from the date on which the bank letter of guarantee comes into effect upon issuance.	No	No

Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)	RMB6,136,411,000	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)	RMB4,414,235,000
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)	RMB12,570,985,800	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)	RMB7,545,487,500

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)	RMB6,322,387,800	Total amount of guarantee actually incurred during the reporting period (A2+B2)	RMB4,599,902,100
Total amount of guarantee approved as at the end of the reporting period (A3+B3)	RMB12,798,376,100	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4)	RMB7,772,877,800
Total amount of guarantee (A4+B4) as a percentage of net assets of the Company		31.24%	
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)		RMB7,545,487,500	
Amount of total guarantee exceeding 50% of net assets (E)		0	
Aggregate amount of the three guarantee amounts stated above (C+D+E)		RMB7,545,487,500	
Statement on potential joint liability involved in outstanding guarantees		N/A	
Statement on provision of guarantee to third parties in violation of stipulated procedures		N/A	

Note 1: It was considered and approved at the Twelfth Meeting of the Sixth Session of the Board of Directors that a Letter of Guarantee for Tender with an amount of 0.82 million KWD be provided by the Company for Zena Technologies & Telecommunication Systems Co. WLL, its agent company in Kuwait. The said Letter of Guarantee for Tender was issued in January 2014.

Note 2: It was considered and approved at the Fifteenth Meeting of the Sixth Session of the Board of Directors that a Letter of Guarantee for Tender with an amount of ZMW1 million for the joint tender partnership, namely the Company and Arelis Broadcast SAS of France. The said Letter of Guarantee for Tender was issued in February 2014. As at the end of the reporting period, the aforesaid Letter of Guarantee for Tender had been withdrawn and the Company's guarantee obligations had been released.

Note 3: It was considered and passed at the meeting of the board of directors of ZTE ICT Company Limited ("ZTE ICT"), a subsidiary of the Company, that approval be given to the application by Hunan ZTE ICT Company Limited ("Hunan ICT"), a wholly-owned subsidiary of ZTE ICT, to Bank of China Corporation, Shenzhen Branch for a letter of guarantee with a total amount of not more than RMB25 million under the credit facilities available to ZTE ICT, and to the provision of joint liability guarantee by ZTE ICT in respect of the liability of Hunan ICT under the said letter of guarantee. The aforesaid letter of guarantee was issued in June 2014 for an amount of approximately RMB7.30 million and was released in September 2014 upon expiry.

Note 4: It was considered and approved at the board meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT, a wholly-owned subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). As at the end of the reporting period, the aforesaid guarantee documents had come into effect and the other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee.

Note 5: It was respectively considered and approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile, and a performance guarantee of USD40 million be provided by the Company for PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary of the Company and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were considered and approved at the First Extraordinary General Meeting of 2009 in accordance with relevant laws and regulations. The USD40 million performance guarantee provided by the Company for ZTE Indonesia and the USD5 million letter of performance guarantee issued by the relevant bank were released in January 2014. As at the end of the reporting period, the guarantee provided by the Company in respect of CJSC TK Mobile's bank loans by way of pledge of equity was pending performance as the relevant agreement had not yet been signed.

Note 6: In July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in favour of the lending banks for ZTE HK. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors of the Company. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company and was considered and approved. In July 2014, ZTE HK made a repayment of USD450 million in loans to the lending banks. In accordance with the guarantee agreement, the amount of guarantee shall be the outstanding amount due upon maturity under the syndicate loan agreement. Hence the amount of joint liability assurance provided thereafter by ZTE for ZTE HK in favour of the lending banks has been adjusted to not more than USD450 million.

Note 7: 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 was undergoing registration procedures of the State Administration of Foreign Exchange and had yet to be performed.

Note 8: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. Since the gearing ratio of ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the Third Extraordinary General Meeting of 2013. As at the end of the reporting period, a USD15 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's bank credit facilities had been executed and the USD40 million performance guarantee agreement had been signed.

Note 9: The Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, its wholly-owned subsidiary, as the principal. The Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was considered and approved at the 2013 Annual General Meeting of the Company. The total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. In July 2014, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD450 million syndicate loan agreement with 12 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks for ZTE HK.

Note 10: The Company sought debt financing (including but not limited to bank facilities and the issue of corporate bonds) of not more than RMB2,000 million in the overseas market with ZTE HK, its wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK by way of joint liability assurance for an amount of not more than RMB2,000 million in relation to the aforesaid debt financing of ZTE HK for a term of not more than three years (from the date on which the resolution of the General Meeting takes effect). The aforesaid guarantee was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company. As the gearing ratio of ZTE HK is above 70%, the aforesaid guarantee was considered and approved at and the First Extraordinary General Meeting of 2014 of the Company. In December 2014, ZTE HK (as borrower) entered into a RMB1,500 million syndicate loan agreement with BOC London. At the same time, the Company entered into a guarantee agreement with BOC London to provide joint liability assurance of not more than RMB1,500 million for ZTE HK.

Note 11: At the Twenty-first Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary, and apply to relevant banks for the issuance of a USD2 million bank letter of guarantee. As the gearing ratio of ZTE Malaysia is above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2014 of the Company. As at the end of the reporting period, the USD20 million performance guarantee provided by the Company for ZTE Malaysia had come in effect. The USD2 million bank letter of guarantee issued by relevant banks, applied for by the Company on behalf of ZTE Malaysia, came into effect in January 2015.

Note 12: The guaranteed amounts are translated at the book exchange rates of the Company as at 31 December 2014: USD1: RMB6.2005, EUR1: RMB7.5342, KWD1: RMB21.2077; ZMW1: RMB0.9768.

Note 13: All third party guarantees of the Company have been submitted to the Board of Directors for its review and come into effect with the approval of two-thirds of the members of the Board of Directors. Third party guarantees which are further subject to consideration and approval at the general meeting in accordance with relevant regulations have come into effect with the approval of the general meeting following approval by the Board of Directors.

Material Matters

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

(1) As at 31 December 2014, the transfer of funds between the Company and the controlling shareholder and other connected parties represented transactions in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties had appropriated the Company's funds for non-operating purposes or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have conducted reviews in the light of the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the Notice and have not found any matter which is in breach of the Notice.

(2) As at 31 December 2014, the balance of guarantees provided by the Company actually incurred was approximately RMB7,772,877,800, accounting for 31.24% of the owner's equity attributable to shareholders of the parent company. The amount of third-party guarantee (excluding guarantees on behalf of subsidiaries) actually incurred during the 2014 reporting period was approximately RMB185,667,100. The balance of actually incurred third-party guarantee (excluding guarantees on behalf of subsidiaries) as at the end of the 2014 reporting period was approximately RMB227,390,300. Third-party guarantees on behalf of subsidiaries actually incurred during the 2014 reporting period amounted to approximately RMB4,414,235,000. The balance of actually incurred third-party guarantees on behalf of subsidiaries as at the end of the 2014 reporting period was approximately RMB7,545,487,500. For details of the third party guarantees of the Company, please refer to the sub-section headed "2. Third-party guarantees of the Group" in this section. The information on guarantees disclosed in the 2014 Annual Report of the Company is true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.

(3) In accordance with the "Notice regarding Third-party Guarantees Provided by Listed Companies"(Zheng Jian Fa [2005] No. 120), the Shenzhen Listing Rules, the Hong Kong Listing Rules and other pertinent regulations, the Company has specified the scope of authority for the Board of Directors and the general meeting in approving third-party guarantees in the Articles of Association, and has formulated "the ZTE Measures for the Administration of Third-party Guarantees", in which the approval process of third-party guarantees to be made by the Company and its subsidiaries is specifically provided for to regulate third-party guarantees of the Company and effectively control risks arising therefrom.

(4) As Independent Non-executive Directors of the Company, we have conducted reviews in the light of the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56), the "Notice regarding the Regulation of Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2005] No. 120), and the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during 2014 are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

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

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

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012-2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Subject to the long-term supply contracts signed between	No	Under normal progress
5	Framework Agreement of Chipset Procurement for Calendar Years 2012-2014 between the Company and Broadcom	21 February 2012	By reference to market prices	the two parties and specific purchase orders	No	Terminated under normal conditions as at 31 December 2014

(XI) UNDERTAKING

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

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

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

Material Matters

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

(XII) APPOINTMENT OF AUDITORS

Ernst & Young Hua Ming LLP and Ernst & Young acted as the Company's PRC and Hong Kong auditors, respectively. For further details, please refer to the section of this report headed "Corporate Governance Structure Part II—VI. Auditors' Remuneration".

(XIII) 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.

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

(XVI) OTHER SIGNIFICANT EVENTS

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

(XVII) 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	**7,225,715**	**0.21%**	**—**	**—**	**—**	**–455,137**	**–455,137**	**6,770,578**	**0.19%**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Comprising: domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	7,225,715	0.21%	—	—	—	–455,137	–455,137	6,770,578	0.19%
II. Shares not subject to lockup	**3,430,315,563**	**99.79%**	**—**	**—**	**—**	**455,137**	**455,137**	**3,430,770,700**	**99.81%**
1. RMB ordinary shares	2,800,730,118	81.47%	—	—	—	455,137	455,137	2,801,185,255	81.49%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	629,585,445	18.32%	—	—	—	—	—	629,585,445	18.32%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**3,437,541,278**	**100.00%**	**—**	**—**	**—**	**—**	**—**	**3,437,541,278**	**100.00%**

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

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

Unit: shares

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 Dec 2013	Number of shares released from lock-up during the year	Increase in the number of shares subject to lock-up during the year	Number of shares subject to lock-up at the end of the year	Reason for lock-up	Date of unlocking
1	Hou Weigui	973,103	—	—	973,103	Restricted senior management shares	Note 1
2	Chen Jie	595,936	37,499	—	558,437	Restricted senior management shares	Note 1
3	Yin Yimin	474,624	—	—	474,624	Restricted senior management shares	Note 1
4	Xu Huijun	420,709	—	—	420,709	Restricted senior management shares	Note 1
5	Shi Lirong	307,882	—	105,000	412,882	Restricted senior management shares	Note 1
6	Fan Qingfeng	421,874	59,999	—	361,875	Restricted senior management shares	Note 1
7	Zhu Jinyun	361,844	—	—	361,844	Restricted senior management shares	Note 1
8	Wei Zaisheng	328,065	—	—	328,065	Restricted senior management shares	Note 1
9	Zeng Xuezhong	425,700	105,000	—	320,700	Restricted senior management shares	Note 1
10	Pang Shengqing	391,051	75,000	—	316,051	Restricted senior management shares	Note 1
11	Others	2,524,927	331,389	48,750	2,242,288	Restricted senior management shares	Note 1 and Note 2
	Total	**7,225,715**	**608,887**	**153,750**	**6,770,578**	**—**	**—**

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. Up to 25% of shares not subject to lockup acquired by the Directors, Supervisors and senior management are disposable during the year of acquisition.

Note 2: Relevant shares held by Directors, Supervisors and senior management who were newly appointed were subjected to lock-up in accordance with relevant domestic regulations.

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

1. The Company completed the issue of the 2012 corporate bonds (tranche 1) on 15 June 2012. The finalized online and offline issue volumes amounted to RMB200 million and RMB5,800 million, respectively, with a coupon interest rate of 4.20%. The corporate bonds under the said issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code "112090" and the abbreviated bond name "12中興01."

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

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

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

4. 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 as at the end of the year

	Total number of shareholders
As at 31 December 2014	There were 167,184 shareholders (comprising 166,820 holders of A shares and 364 holders of H shares)
As at the close of trading on 19 March 2015, namely 5 trading days prior to the publication of the annual results	There were 159,737 shareholders (comprising 159,377 holders of A shares and 360 holders of H shares)

Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares						
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 corporation	30.78%	1,058,191,944	0	0	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.28%	628,334,340	+26,768	0	Unknown
3. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.09%	37,450,609	0	0	Unknown
4. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	0.66%	22,679,287	–2,017,098	0	Unknown
5. Qianhai Life Insurance Company Limited — Owned Funds Huatai Portfolio	Others	0.51%	17,605,008	+17,605,008	0	Unknown
6. Seventh Research Institute of China Mobile	State-owned corporation	0.46%	15,894,950	0	0	Unknown
7. NSSF Portfolio #113	Others	0.40%	13,711,011	–3,000,089	0	Unknown
8. CASIC Shenzhen (Group) Company Limited	State-owned corporation	0.35%	12,155,870	0	0	Unknown
9. ICBC — Bosera Select Stock Fund	Others	0.35%	11,999,656	+6,999,738	0	Unknown
10. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	0.34%	11,683,756	–8,278,028	0	Unknown

Shareholdings of top 10 holders of shares 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 share
2. HKSCC Nominees Limited	628,334,340	H share
3. Hunan Nantian (Group) Co., Ltd.	37,450,609	A share
4. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	22,679,287	A share
5. Qianhai Life Insurance Company Limited — Owned Funds Huatai Portfolio	17,605,008	A share
6. Seventh Research Institute of China Mobile	15,894,950	A share
7. NSSF Portfolio #113	13,711,011	A share
8. CASIC Shenzhen (Group) Company Limited	12,155,870	A share
9. ICBC — Bosera Select Stock Fund	11,999,656	A share
10. China Life Insurance (Group) Company — Traditional — General Insurance Products	11,683,756	A share

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. Zhongxingxin was a related party (as defined under Shenzhen Listing Rules), but not a concerted party, of the 8th ranking shareholder among the top 10 shareholders and the top 10 holders of shares that were not subject to lock up. Save as aforesaid, there were no connected party relationships or concerted party relationships between Zhongxingxin and other top 10 shareholders and other top 10 holders of shares that were not subject to lock-up listed above. 2. China Life Insurance (Group) Company, fund manager of the 10th ranking shareholder among the top 10 shareholders, was the controlling shareholder of China Life Insurance Company Limited, fund manager of the 4th ranking shareholder. 3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A

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

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

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

Changes in Shareholdings and Information of Shareholders

Whether the top ten shareholders and the top ten holders of shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period

☐ Yes ✓ No

THE COMPANY HAD NO PREFERENTIAL SHARES.

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 parts and 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 2014 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 2014 amounted to approximately RMB356 million, RMB22 million and RMB-31 million, respectively. As at 31 December 2014, total assets and total liabilities amounted to approximately RMB6,487 million and RMB1,206 million, respectively. In future, Zhongxingxin will build an innovative investment group company engaged in diversified capital applications with a primary focus on innovative technologies and services in close tandem with principal economic activities in China.

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

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

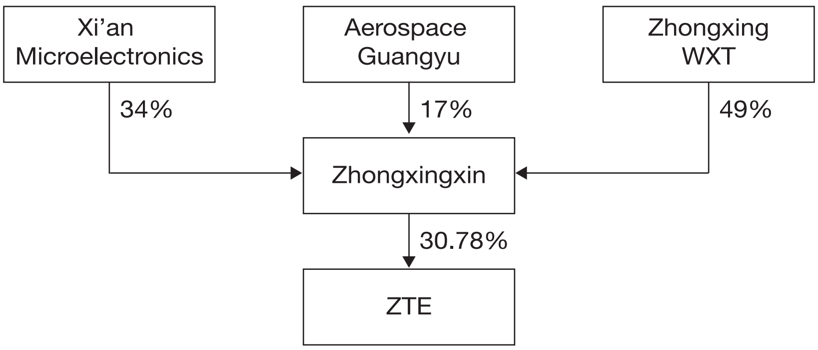
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics,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

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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company, Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Cui Yuping and the registered capital amounts to RMB17,950,000. Its organization number is 19217503-1. The scope of business includes aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile, sales of automobile; domestic trade; import and export operations; trade brokerage and agency; lease of owned properties.

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

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2014:



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

5. **So far as known to the Company, no shareholders of the Company and their concerted parties proposed or implemented plans to increase shareholdings during the reporting period.**

Changes in Shareholdings and Information of Shareholders

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

As at 31 December 2014, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: Total share capital	Class shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Zhongxing WXT	Interests of corporation controlled by the substantial shareholder	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Xi'an Microelectronics	Interests of corporation controlled by the substantial shareholder	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by the substantial shareholder	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
China Aerospace Science and Technology Corporation	Interests of corporation controlled by the substantial shareholder	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
BlackRock, Inc.	Interests of corporation controlled by the substantial shareholder	67,474,390 H share (L)	1.96(L)	10.72(L)
	Interests of corporation controlled by the substantial shareholder	511,600 H share (S)	0.01(S)	0.08(S)
Aranda Investments (Mauritius) Pte Ltd	Interests of corporation controlled by the substantial shareholder	11,141,800 H share (L)	1.16(L)[Note]	6.96(L)[Note]
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	40,970,469 H share (L)	1.19(L)	6.50(L)
	Beneficial owner	3,253,675 H share (S)	0.09(S)	0.51(S)
	custodian corporation/approved lending agent	30,647,239 H share (P)	0.89(P)	4.86(P)
Capital Research and Management Company	Investment manager	38,410,000 H share (L)	1.12(L)	6.10(L)
Massachusetts Financial Services Company ("MFS")	Investment manager	8,428,100 H share (L)	0.88(L)[Note]	5.26(L)[Note]
Sun Life Financial, Inc.	Interests of corporation controlled by the substantial shareholder	8,428,100 H share (L)	0.88(L)[Note]	5.26(L)[Note]

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

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

Save as disclosed above, as at 31 December 2014, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

7. Purchase, sale and redemption of securities

During the year, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

8. Public float

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

Directors, Supervisors, Senior Management and Employees

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

1. Brief biographies of Directors

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

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

Mr. Xie Weiliang, born in 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 Shenzhen Aerospace Guangyu Industrial Company Limited since 2003. From 2003 to January 2014 he was director and general manager of CASIC Shenzhen (Group) Company, Limited. From January 2014 to September 2014 he was chairman and CPC committee secretary of CASIC Shenzhen (Group) Company, Limited. Since October 2014 he has been inspector (bureau-level) of CASIC Shenzhen (Group) Company, Limited. He has been Vice Chairman and Non-executive Director of the Company since February 2004 and is concurrently chairman of Zhongxingxin. Mr. Xie has substantial experience in management and business operations.

Mr. Wang Zhanchen, born in 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 was vice chairman of China Aerospace Times Electronics Co., Ltd. from June 2008 to June 2014 and Non-executive Director of the Company since March 2010. Mr. Wang has substantial experience in management and business operations.

Mr. Zhang Junchao, born in 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, head of Shaanxi Management Division of China Aerospace Times Electronics Corporation (renamed as "China Academy of Aerospace Electronics Technology") and head of Xi'an Microelectronics Technology Institute from May 2003 to January 2014 and deputy head of China Academy of Aerospace Electronic Technology from September 2010 to January 2014. He has been Non-executive Director of the Company since February 2004. Mr. Zhang has substantial experience in management and business operations.

Mr. Dong Lianbo, born in 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 CASIC Shenzhen (Group) Company, Limited from 2003 to January 2014. Since January 2014, he has been head of first inspection team of China Aerospace Science and Industry Corporation. He has been Non-executive Director of the Company since February 2004. Mr. Dong has substantial experience in management and business operations.

Mr. Shi Lirong, born in 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 global sales from 2007 to 2010. 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 24 years of management experience.

Mr. Yin Yimin, born in 1963, is Executive Director of the Company. Mr. Yin graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a master's degree in engineering, majoring in telecommunications and electronic systems, and currently holds the title of senior engineer. Mr. Yin had served as a manager of the research and development department of Shenzhen Zhongxing Semiconductor Co., Ltd. since 1991, and as deputy general manager of Zhongxingxin between 1993 and 1997. From 1997 to March 2010 he served as the Company's Vice President, Senior Vice President and President, being in charge of different divisions such as research and development, marketing, sales and handsets operations. He has been Executive Director of the Company since November 1997. Mr. Yin has many years of experience in the telecommunications industry and over 24 years of management experience.

Mr. He Shiyou, born in 1966, is Executive Director of the Company. Mr. He graduated from Beijing University of Posts and Telecommunications in 1990 with a master's degree in engineering, specialising in electromagnetic field and microwave technology and currently holds the title of senior engineer. Mr. He joined Zhongxingxin in 1993 and had since served as chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's Vice President from 1998 to 1999, responsible for divisions such as research and development and marketing. From 1999 to 2014, he had been Senior Vice President and Executive Vice President of the Company responsible for Sales Division II and the Handset Division of the Company. He has been Executive Director of the Company since February 2001. Mr. He has many years of experience in the telecommunications industry as well as over 22 years of management experience.

Ms. Qu Xiaohui, born in 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 each of Yunnan

Directors, Supervisors, Senior Management and Employees

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 in 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 each of Dalian Zhangzidao Fishery Group Company Limited (a company listed on Shenzhen Stock Exchange), Telling Telecommunication Holding Co., Ltd. (a company listed on Shenzhen Stock Exchange) and Skyworth Digital Holdings Limited (a company listed on the Hong Kong Stock Exchange). Mr. Wei is well qualified, both academically and professionally, and vastly experienced in corporate management.

Mr. Chen Naiwei, born in 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 each of Shanghai Pharmaceuticals Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange), Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Shanghai Kinlita Chemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Shanghai Jiaoyun Group Co., Ltd. (a company listed on the Shanghai Stock Exchange). Mr. Chen is well qualified, both academically and professionally, and vastly experienced in the legal sector.

Mr. Tan Zhenhui, born in 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 serving since August 1982 as faculty dean, vice chancellor and chancellor. He has been Independent Non-executive Director of the Company since March 2010. Mr. Tan is well qualified, both academically and professionally, and vastly experienced in the telecommunications sector.

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

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

Mr. Feng Jianxiong, born in 1974, is the Secretary to the Board of Directors and Company Secretary of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor's degree in economics, majoring in international finance, and from CEIBS in 2012 with a master's degree in Business Administration. He joined Zhongxingxin, controlling shareholder of the Company, in July 1996, and has been the Secretary to the Board of Directors of the Company since 2000, with spells as heads of the Investment Department, Securities and Finance Department and Securities and Investor Relations Department of the Company during the period. Mr. Feng has many years of experience in the telecommunications industry and over 15 years of management experience.

3. Brief biographies of Supervisors

Mr. Xie Daxiong, born in 1963, is Chairman of the Supervisory Committee of the Company. Mr. Xie is a professor-grade senior engineer. He graduated from the Nanjing University of Science and Technology in 1986 with a master's degree in engineering, specialising in applied mechanics. Mr. Xie joined Zhongxingxin, controlling shareholder of the Company, in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie had been CDMA Product Manager and General Manager of CDMA Division of the Company. From 2004 to 2012, he was Executive Vice President of the Company in charge of the Company's technology planning and strategy. He has become Chairman of the Supervisory Committee of the Company since March 2013. As a national-level candidate of the talent programme, Mr. Xie is entitled to special government grants awarded by the State Council. He was also a recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry and over 18 years of management experience.

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

Mr. Zhou Huidong, born in 1976, is Supervisor of the Company and Head of the Financial Control Department. He graduated from Peking University in July 1998 with a bachelor's degree majoring in finance and accounting. He graduated from Guanghua School of Management of Peking University in July 2014 with a master's degree. Mr. Zhou has been with the Company since July 1998. He is a certified public accountant and a certified tax agent.

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

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

4. Brief biographies of Senior Management

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

Mr. Wei Zaisheng, born in 1962, is currently Executive Vice President and Chief Financial Officer in charge of corporate finance and investment management of the Group. Mr. Wei obtained a master's degree in business administration from Peking University in 2004. He joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1988 and served as chief financial officer and assistant to the general manager of Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997. He was Senior Vice President of the Company from 1997 to 1999 and has been Executive Vice President of the Company in charge of the Financial System of the Company since 1999. He was appointed member of Accounting Informatisation Committee and member of XBRL Regional Steering Committee (China) by the Ministry of Finance in November 2008, and was appointed member of the Accounting Standards Strategic Committee by the Ministry of Finance in December 2014. 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 26 years of management experience.

Mr. Tian Wenguo, born in 1969, has been Executive Vice President of the Company since 2005 and is currently in charge of sales and engineering service of the Company. Mr. Tian graduated from Harbin Institute of Technology in 1991 with a bachelor's degree in engineering, specialising in electromagnetic surveys and devices. In 2006, he graduated from Tsinghua University with a master's degree in business administration. Mr. Tian joined Zhongxingxin, controlling shareholder of the Company, in 1996. Mr. Tian was manager of the Company's Chongqing Sales Office and general manager (Southwest Region) from 1997 to 2002 and Senior Vice President and General Manager of Sales Division II of the Company from 2002 to 2005. Since 2005, he has been Executive Vice President of the Company in charge of Marketing and Operations System, Marketing System, Product Marketing System and Logistics System of the Company. Mr. Tian has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Qiu Weizhao, born in 1963, has been Executive Vice President of the Company since 2007 and is currently in charge of Logistics and Administration Affairs of the Company. Mr. Qiu graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master's degree in engineering. Mr. Qiu was in charge of the Logistics System of the Company from 1998 to 2007 and Human Resources and Administration System from 2008 to 2012, and has been in charge of Logistics and Administration since September 2012. Mr. Qiu has many years of experience in the telecommunications industry and over 26 years of management experience.

Mr. Fan Qingfeng, born in 1968, has been Executive Vice President of the Company since March 2008. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree specialising in industrial electrical automation, and from Tsinghua University in 2006 with a master's degree in business administration. Mr. Fan joined Zhongxingxin in 1996. From 1997 to 2008, Mr. Fan acted as project manager of regional office, manager of regional office, regional general manager, Division Deputy General Manager and Senior Vice President of the Company. Mr. Fan has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Zeng Xuezhong, born in 1973, has been Executive Vice President of the Company since January 2014 and is currently in charge of the Terminals Division. Mr. Zeng graduated from Tsinghua University with a bachelor's degree in science, specialising in modern applied science, in 1996 and with an EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to 2006, Mr. Zeng had been senior project manager, assistant to regional general manager, manager of Guiyang Office, manager of Kunming Office, Deputy General Manager and General Manager of Sales Division II and Vice President of the Company. Since 2006, he had been Senior Vice President of the Company in charge of Sales Division III. Since January 2014, he has been Executive Vice President of the Company in charge of the Terminals Division of the Company. Mr. Zeng has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Zhao Xianming, born in 1966, has been Executive Vice President of the Company since January 2014 and is currently in charge of the Strategic and Platform Operations of the Company and the System Products Business Departments, and concurrently acting as CTO. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate degree in engineering. He joined the Company in 1998 to be engaged in the research, development and management of CDMA products. He had been head of the research and development group, project manager and general product manager from 1998 to 2003. In 2004, he was appointed Senior Vice President of the Company in charge of the CDMA Division and the Wireless Product Division. In January 2014, he was appointed Executive Vice President of the Company in charge of the Strategic and Platform Operations of the Company. Mr. Zhao has many years of experience in the telecommunications industry and over 23 years of management experience.

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

Mr. Pang Shengqing, born in 1968, has been Senior Vice President of the Company since 2005 and is currently in charge of the Government and Enterprise Sectors Division of the Company. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin, controlling shareholder of the Company, in 1995. From 1998 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology and hardware systems. Mr. Pang was Deputy General Manager of the CDMA Division from 2001 to 2004 and general manager of Sales Division I

Directors, Supervisors, Senior Management and Employees

of the Sales System of the Company from 2005 to 2011, and general manager of the System Product Solutions Division of the Company from 2012 to 2013. Mr. Pang has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Xu Huijun, born in 1973, has been Senior Vice President of the Company since 2004 and is currently in charge of the Wireless Product Division of the Company. Mr. Xu graduated from Tsinghua University in 1998 with a master's degree in engineering, specialising in electronic engineering. He joined the Company in 1998 and had served as a project manager of the General Product Division and the head of Beijing Research Centre from 1998 to 2003. He has been in charge of the General Product Division and Engineering Services under the Sales System of the Company after appointment as Senior Vice President of the Company in 2004. Mr. Xu has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Ye Weimin, born in 1966, has been Senior Vice President of the Company since 2001 and is currently in charge of supply chain of the Company. 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 (DBA) conferred by ESC Rennes School of Business. He has been involved in the research and development as well as engineering work of the first 10,000-line digital programme-control PBX and mobile communication systems of the Company after joining Zhongxingxin, controlling shareholder of the Company, in 1994. From 1997 to 2001, he had served as Chief Officer of the Central Laboratory, Head of Quality Control Department and the Customer Services Department of the Mobile Division and Deputy General Manager of Sales Division III of the Company. Since 2001, he has been Senior Vice President of the Company in charge of the Mobile Division (research and operation of mobile communication system products), Sales Division V (Sales in America and Africa), Handset Logistics Team, Procurement Tender Team, China Terminal Business Division and supply chain management. Mr. Ye has many years of experience in the telecommunications industry and over 22 years of management experience at intermediate and senior levels.

Mr. Zhu Jinyun, born in 1972, has been Senior Vice President of the Company since 2009. He is currently in charge of the Company's Cloud Computing and IT Products Operations. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering, specialising in communications and electronic systems. He joined the Company in the same year to be engaged in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA Hardware Development Department, general project manager for various products under the CDMA Division and general project manager for WCDMA products. From 2009 to 2012, he was General Manager of Sales Division IV of the Company. Since 2013, he has been general manager of the Cloud Computing and IT Products Operations. Mr. Zhu has many years of experience in the telecommunications industry and over 15 years of management experience.

Mr. Zhang Renjun, born in 1969, has been Senior Vice President of the Company since 2009 and is currently in charge of Sales Division I. Mr. Zhang graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2011, he had been Deputy General Manager of Sales Division I, Deputy General Manager of Sales Division IV, Head of the MTO Division and Director of the PMO Division, 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 15 years of management experience.

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

2011, he served as Assistant to the President responsible for the Company's Architecture and Processes. From 2012 to 2013, Mr. Chen was in charge of Processes and Human Resources of the Company. Mr. Chen has many years of experience in the telecommunications industry and over 18 years of management experience.

Mr. Cheng Lixin, born in 1966, has been Senior Vice President of the Company since April 2013 and is currently in charge of the North America operations of the Terminal Business Division of the Company. Mr. Cheng graduated from Zhejiang University in 1989 with a Bachelor's Degree in Engineering, majoring in Radio Engineering, and completed EMBA studies in the U.S. in 1997. Mr. Cheng worked at Nanjing Panda Ltd. as an engineer and a project manager from 1989 until 1992. From 1992 to 2001, he had been project manager, production engineering manager, deputy general manager of supply chain division, general manager of sales division and vice president of sales and supply at Nanjing Ericsson Panda Ltd. From 2001 to 2004, Mr. Cheng served as sales director at Ericsson Wireless Inc in the U.S. From 2004 to 2006, He had been director, president and chief sales officer at Axesstel Inc in the U.S. From 2006 to 2010, he served as President of ALA Group, Inc. Mr. Cheng joined the Company in 2010 as Deputy General Manager of Sales Division IV and General Manager of North America Region of the Company and CEO of ZTE (USA) Inc. Since April 2013, he has been Senior Vice President of the Company in charge of Sales Division IV of the Company. Mr. Cheng has 24 years of experience in the telecommunications industry and top-level management at multinational corporations.

Mr. Xiong Hui, born in 1969, has been Senior Vice President of the Company since January 2014 and is currently in charge of Marketing Division V of the Company. Mr. Xiong graduated from Sichuan University in 1990 majoring in Materials Studies, with a bachelor's degree in engineering. He received a master's degree in management, specialising in management science and engineering, in 1998 and a doctorate degree in enterprise management in 2007, both from the University of Electronic Science and Technology of China. Mr. Xiong joined the Company in 1998. He had been Head of Business Technology Section at the Company's Chongqing Sales Office, Head of Planning Department, Head of HR Department, Deputy General Manager of the Handset Division, General Manager of U.S. Operations of the Handset Division, and General Manager of European and U.S. Operations of the Handset Division from 1998 to 2012. He has been General Manager of Marketing Division V of the Company since 2013. Mr. Xiong has many years of experience in the telecommunications industry and over 18 years of management experience.

Mr. Zhang Zhenhui, born in 1973, has been Senior Vice President of the Company since January 2014 and is currently in charge of Marketing Division III of the Company. Mr. Zhang graduated from Harbin University of Science and Technology in 1993 with a bachelor's degree in engineering, majoring in equipment engineering and management. In 1998, he received a master's degree in management science from Jiangsu University. In 2004, he received a doctorate degree in management science and engineering from Southeast University. Mr. Zhang had served as manager of Shijiazhuang Office and manager of Taiyuan Office of the Company from 2002 to 2006 after joining the Company in 2001. He was Deputy General Manager of Marketing Division III of the Company from 2006 to 2014, and has been General Manager of Marketing Division III of the Company since 2014. Mr. Zhang has many years of experience in the telecommunications industry and over 11 years of management experience.

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

Directors, Supervisors, Senior Management and Employees

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

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

No.	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from shareholder entities
Directors of the Company														
1	Hou Weigui	Chairman	Incumbent	Male	73	3/2013	3/2016	1,297,472	–	–	1,297,472	–	240.2	No
2	Zhang Jianheng	Vice Chairman	Incumbent	Male	53	3/2013	3/2016	–	–	–	–	–	10.0	No
3	Xie Weiliang	Vice Chairman	Incumbent	Male	58	3/2013	3/2016	32,760	–	–	32,760	–	10.0	Yes
4	Wang Zhanchen	Director	Incumbent	Male	62	3/2013	3/2016	–	–	–	–	–	10.0	No
5	Zhang Junchao	Director	Incumbent	Male	61	3/2013	3/2016	32,760	–	–	32,760	–	10.0	No
6	Dong Lianbo	Director	Incumbent	Male	57	3/2013	3/2016	32,760	–	–	32,760	–	10.0	Yes
7	Shi Lirong	Director and President	Incumbent	Male	50	3/2013	3/2016	410,511	140,000	–	550,511	Note 1	382.8	No
8	Yin Yimin	Director	Incumbent	Male	51	3/2013	3/2016	632,833	–	–	632,833	–	91.6	No
9	He Shiyou	Director	Incumbent	Male	48	3/2013	3/2016	344,940	–	–	344,940	–	63.4	No
10	Qu Xiaohui	Independent Non-executive Director	Incumbent	Female	60	3/2013	7/2015	–	–	–	–	–	13.0	No
11	Wei Wei	Independent Non-executive Director	Incumbent	Male	49	3/2013	7/2015	–	–	–	–	–	13.0	No
12	Chen Naiwei	Independent Non-executive Director	Incumbent	Male	57	3/2013	7/2015	–	–	–	–	–	13.0	No
13	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	70	3/2013	3/2016	–	–	–	–	–	13.0	No
14	Richard Xike Zhang	Independent Non-executive Director	Incumbent	Male	44	6/2013	3/2016	–	–	–	–	–	13.0	No
Supervisors of the Company														
15	Xie Daxiong	Chairman of Supervisory Committee	Incumbent	Male	51	3/2013	3/2016	413,169	–	–	413,169	–	262.5	No
16	He Xuemei	Supervisor	Incumbent	Female	44	3/2013	3/2016	80,347	–	20,087	60,260	Note 1	52.0	No
17	Zhou Huidong	Supervisor	Incumbent	Male	38	3/2013	3/2016	78,158	–	19,540	58,618	Note 1	62.6	No
18	Xu Weiyan	Supervisor	Incumbent	Female	52	3/2013	3/2016	9,199	–	–	9,199	–	69.4	No
19	Chang Qing	Supervisor	Incumbent	Male	59	3/2013	3/2016	–	–	–	–	–	–	Yes
Senior Management of the Company														
20	He Shiyou[Note 2]	Executive Vice President	Resigned	Male	48	4/2013	1/2014				Note 2			
21	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	52	4/2013	3/2016	437,421	–	104,356	333,065	Note 1	236.8	No
22	Tian Wenguo	Executive Vice President	Incumbent	Male	45	4/2013	3/2016	204,877	–	51,219	153,658	Note 1	450.9	No
23	Qiu Weizhao	Executive Vice President	Incumbent	Male	51	4/2013	3/2016	385,414	–	96,000	289,414	Note 1	175.7	No
24	Fan Qingfeng	Executive Vice President	Incumbent	Male	46	4/2013	3/2016	482,500	–	120,625	361,875	Note 1	189.1	No
25	Zeng Xuezhong[Note 2]	Senior Vice President Executive Vice President	Resigned Incumbent	Male	41	4/2013 1/2014	1/2014 3/2016	427,600	–	101,900	325,700	Note 1	79.5	No
26	Zhao Xianming[Note 2]	Senior Vice President Executive Vice President	Resigned Incumbent	Male	48	4/2013 1/2014	1/2014 3/2016	323,905	–	80,976	242,929	Note 1	775.9	No
27	Chen Jie	Senior Vice President	Incumbent	Female	56	4/2013	3/2016	744,583	–	60,000	684,583	Note 1	315.3	No
28	Pang Shengqing	Senior Vice President	Incumbent	Male	46	4/2013	3/2016	421,402	–	–	421,402	–	197.5	No
29	Xu Huijun	Senior Vice President	Incumbent	Male	41	4/2013	3/2016	560,945	–	140,236	420,709	Note 1	432.5	No
30	Ye Weimin	Senior Vice President	Incumbent	Male	48	4/2013	3/2016	397,248	–	30,000	367,248	Note 1	103.8	No

No.	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reason for the change	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from shareholder entities
31	Zhu Jinyun	Senior Vice President	Incumbent	Male	42	4/2013	3/2016	482,460	–	120,616	361,844	Note 1	84.9	No
32	Zhang Renjun	Senior Vice President	Incumbent	Male	45	4/2013	3/2016	–	–	–	–	–	165.7	No
33	Chen Jianzhou	Senior Vice President	Incumbent	Male	44	4/2013	3/2016	130,028	–	32,507	97,521	Note 1	165.1	No
34	Cheng Lixin	Senior Vice President	Incumbent	Male	48	4/2013	3/2016	3,000	–	–	3,000	–	461.9	No
35	Xiong Hui[Note 2]	Senior Vice President	Incumbent	Male	45	1/2014	3/2016	–	–	–	–	–	249.7	No
36	Zhang Zhenhui[Note 2]	Senior Vice President	Incumbent	Male	41	1/2014	3/2016	65,000	–	–	65,000	–	460.0	No
37	Feng Jianxiong	Secretary to the Board	Incumbent	Male	40	4/2013	3/2016	275,000	–	–	275,000	–	72.2	No
	Total	**–**	**–**	**–**	**–**	**–**	**–**	**8,706,292**	**140,000**	**978,062**	**7,868,230**	**–**	**5,956.0**	**–**

Note 1: 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 2: At the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, the discontinuation by the Company of the employment of Mr. He Shiyou as Executive Vice President of the Company; the appointment of each of Mr. Zeng Xuezhong and Mr. Zhao Xianming as Executive Vice President of the Company and the removal of each of them from the office of Senior Vice President of the Company; and the appointment of each of Mr. Xiong Hui and Mr. Zhang Zhenhui as Senior Vice President of the Company were approved.

Note 3: None of the Company's Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

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

☐ Applicable ✓ N/A

There was no change to the share options held by the Directors and senior management of the Company during the year. For details of the share options of the Company held by the Directors and senior management of the Company, please refer to the section headed "Material Matters — (V) Implementation and Impact of the Company's Share Option Incentive Scheme" in this report. Supervisors of the Company did not hold any share options of the Company.

(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 Note 1	Zhongxingxin	Chairman	May 2013	May 2016	No
	CASIC Shenzhen (Group) Company Limited	Director and general manager	February 2003	January 2014	Yes
		Chairman and CPC committee secretary	January 2014	September 2014	Yes
		Inspector (bureau-level)	October 2014	Incumbent	Yes
Dong Lianbo Note 2	Zhongxingxin	Director	May 2013	November 2014	No
	CASIC Shenzhen (Group) Company Limited	Director and deputy general manager	February 2003	January 2014	Yes
		Head of first inspection team of CASIC	January 2014	Incumbent	Yes
Chang Qing	Zhongxingxin	Assistant to general manager	April 2008	Incumbent	Yes
		Chairman of labor union	December 2012	Incumbent	No
Wei Zaisheng	Zhongxingxin	Director	May 2013	May 2016	No

Note 1: Mr. Xie Weiliang's position at CASIC Shenzhen (Group) Company Limited was changed from director and general manager to chairman and CPC committee secretary in January 2014 and further changed from chairman and CPC committee secretary to inspector (bureau-level) in October 2014.

Note 2: Mr. Dong Lianbo's position at CASIC Shenzhen (Group) Company Limited was changed from director and deputy general manager to head of first inspection team of CASIC in January 2014. He has ceased to be director of Zhongxingxin as from November 2014.

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

(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	Held positions in 12 subsidiaries including Zhongxing Software	Chairman	No
	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	Zhongxing Energy Company Limited	Chairman	No
	Zhongxing Energy (Tianjin) Company Limited	Chairman	No
	天津中興資本管理有限公司	Chairman	No
Zhang Jianheng	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and chairman of the board	No
	China Lucky Group Corporation	Chairman	No
Xie Weiliang	Shenzhen Aerospace Guangyu Industrial Company Limited	General manager	No
Dong Lianbo	Shenzhen Aerospace Guangyu Industrial Company Limited	Deputy general manager	No
Shi Lirong	Held positions in 3 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Director	No
Yin Yimin Note 1	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive director	No
	ZTE Capital	Chairman/general manager	Yes
	Shenzhen Zhonghe Chunsheng Fund	Executive manager	No
	Jiaxing Xinghe Capital Management Company Limited	Executive director	No
He Shiyou Note 2	Zhongxing WXT	Supervisor	No
	中興健康科技有限公司	Chairman	No
Qu Xiaohui	Xiamen University	Professor	Yes
		Head/dean	No
	Yunnan Baiyao Group Co., Ltd.	Independent non-executive director	Yes
	Taikang Life Insurance Co., Ltd.	Independent non-executive director	Yes
	Guangzhou Baiyun Electric Equipment Co., Ltd.	Independent non-executive director	Yes
	Xiamen NetinNet Software Company Limited	Financial advisor	Yes
Wei Wei Note 3	Peking University HSBC Business School	Associate dean	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
	Skyworth Digital Holdings Limited	Independent non-executive director	Yes

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Chen Naiwei Note 4	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
	Shanghai Kinlita Chemical Co., Ltd.	Independent non-executive director	Yes
	Shanghai Jiaoyun Group Co., Ltd.	Independent non-executive director	Yes
Tan Zhenhui Note 5	Beijing Jiaotong University	Director of University Academic Committee/ professor	Yes
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Xie Daxiong Note 6	Held positions in 4 subsidiaries including Zhongxing Software	Chairman/director	No
He Xuemei Note 7	深圳市中興宜和投資發展有限公司	Director/general manager	No
Zhou Huidong Note 8	Held positions in 14 subsidiaries including ZTE Group Finance	Supervisor	No
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Supervisor	No
	Shanghai ZTE Straw Communication Limited (上海中興思秸通訊有限公司)	Supervisor	No
Xu Weiyan Note 9	Held positions in 2 subsidiaries including ZTE Kangxun	Supervisor/chairman of supervisory committee	No
Chang Qing	陝西中興百綠環保工程有限責任公司	Director	No
Wei Zaisheng	Held positions in 16 subsidiaries including ZTE Group Finance	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Capital Group Co., Ltd.	Supervisor	No
Tian Wenguo	Held positions in 13 subsidiaries including Shenzhen ZTE Supply Chain Co., Ltd.	Chairman/director	No
Qiu Weizhao	Shenzhen Zhongxing Microelectronics Technology Company Limited	Director	No
Fan Qingfeng	Held positions in 5 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited	Chairman/director	No
Zeng Xuezhong	Held positions in 8 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited	Chairman/executive director/director	No
	ZTE 9 (Wuxi) Co., Ltd.(中興九城網絡科技無錫有限公司)	Chairman	No
Zhao Xianming	Held positions in 5 subsidiaries including ZTE Integration Telecom Company Limited	Chairman/director	No
Chen Jie	Held positions in 15 subsidiaries including ZTEsoft Technology Company Limited	Chairman/director/general manager	No
Pang Shengqing	Held positions in 12 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Xu Huijun	Held positions in 4 subsidiaries including 深圳市中興通訊節能服務有限責任公司	Chairman/director/general manager/chairman of supervisory committee	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Zhu Jinyun	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Zhang Renjun	ZTE Japan K.K.	Director	No
Cheng Lixin	Held positions in 2 subsidiaries including ZTE (USA), Inc	Chairman/director/general manager	Note 12
Zhang Zhenhui	Held positions in 2 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman	No
Feng Jianxiong	Held positions in 3 subsidiaries including ZTE Capital	Director/supervisor	No

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

Note 2: Mr. He Shiyou has ceased to be chairman of Shenzhen ZTE Mobile Telecom Company Limited and chairman of ZTE (Hangzhou) Company Limited, as from April 2014 and May 2014, respectively, while being appointed chairman of 中興健康科技有限公司 in August 2014.

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

Note 4: Mr. Chen Naiwei was appointed independent non-executive director of Shanghai Jiaoyun Group Co., Ltd. in November 2014.

Note 5: Mr. Tan Zhenhui has ceased to be independent non-executive director of Jiangsu Tongding Optic-electronic Stock Co., Ltd as from May 2014.

Note 6: Mr. Xie Daxiong has ceased to be director of Tianjin Zhongxing Software Company Limited as from June 2014 and chairman of ZTE Europe Research Institute as from August 2014.

Note 7: Ms. He Xuemei was appointed director and general manager of 深圳市中興宜和投資發展有限公司 in September 2014.

Note 8: Mr. Zhou Huidong was appointed supervisor of 西安中興通訊終端科技有限公司 in July 2014 and supervisor of 中興合泰物業管理有限公司 in August 2014.

Note 9: Ms. Xu Weiyan was appointed supervisory committee chairperson of Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司) in June 2014.

Note 10: Mr. Wang Zhanchen has ceased to be vice chairman of China Aerospace Times Electronics Co., Ltd. as from June 2014.

Note 11: Mr. Zhang Junchao has ceased to be head of Shaanxi Management Division and deputy head of academy of China Academy of Aerospace Electronics Technology as from January 2014.

Note 12: Mr. Cheng Lixin received remuneration from ZTE (USA), Inc.

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

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

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

The remuneration for senior management 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 DURING THE YEAR

Pursuant to the “Resolution on the Appointment and Removal of Senior Management Personnel” considered and passed at the Fourteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 January 2014, the appointment of each of Mr. Zeng Xuezhong and Mr. Zhao Xianming as Executive Vice President of the Company and the removal of each of them from the office of Senior Vice President of the Company; and the appointment of each of Mr. Xiong Hui and Mr. Zhang Zhenhui as Senior Vice President of the Company and the discontinuation of the employment of Mr. He Shiyou as Executive Vice President of the Company were approved. The term of office of the aforesaid senior management appointed as aforesaid shall commence on the date on which the appointment is considered and approved by the Board of Directors of the Company and shall end upon the conclusion of the terms of the Sixth Session of the Board of Directors of the Company (namely 29 March 2016).

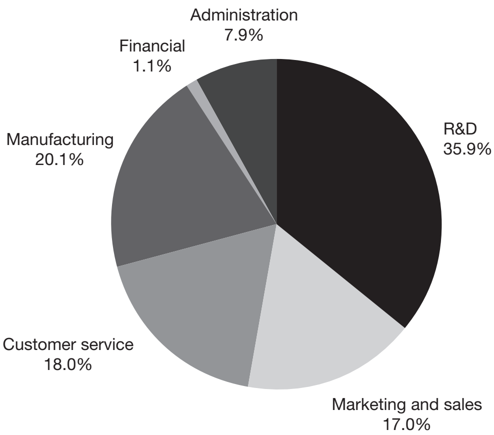
Please refer to sections (III) and (IV) in this chapter for details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company.

(VII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 75,609 employees (including 58,731 as employees of the parent company), with an average age of 32. There were 101 retired employees, including 62 retired employees in respect of which expenses were payable by the Company.

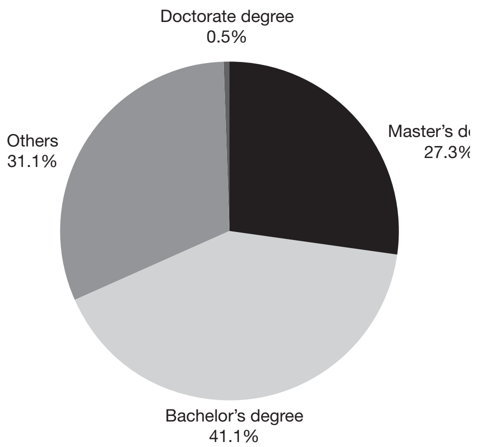
1. **Classification by specialisation as follows:**

Specialisation	Headcount	As an approximate percentage of total headcount
Research and development	27,101	35.9%
Marketing and sales	12,885	17.0%
Customer service	13,628	18.0%
Manufacturing	15,200	20.1%
Financial	806	1.1%
Administration	5,989	7.9%
Total	**75,609**	**100.0%**



2. **Classification by academic qualifications as follows:**

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	416	0.5%
Master's degree	20,620	27.3%
Bachelor's degree	31,071	41.1%
Others	23,502	31.1%
Total	**75,609**	**100.0%**



Directors, Supervisors, Senior Management and Employees

3. Remuneration Package and Training for Employees

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

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

Corporate Governance Structure

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

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

I. Status of Corporate Governance

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

During the year, 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 "2013 Summary Report and 2014 Work Plan for Internal Control and Audit" has been formulated and reviewed at the seventh meeting of the Audit Committee of the Fifth Session of the Board of Directors and the Sixteenth Meeting of the Sixth Session of the Board of Directors.

At the end of the year, 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 accordance with the revised Rules for General Meetings of Listed Companies, the Company has introduced online voting to afford convenience for shareholders participating in its General Meetings, as well as the practice of separately disclosing the votes of minority shareholders in announcements of resolutions of general meetings to give an adequate account of the views of minority shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or contact and communicate with the Company through its designated e-mail address and the investors' relations interactive platform of the Shenzhen Stock Exchange. The Company has also set up an "Investor Protection Promotion" column on its website to collect, compile, publish or cite information relating to investor protection.

(II) Controlling shareholder and the listed company: The Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without compromising the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles of Association. The staffing, assets, financial affairs, organisation and business of the controlling shareholder of the Company are independent from those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming

Corporate Governance Structure

its own responsibilities and risks. The controlling shareholder of the Company was not engaged in any direct or indirect interference with the decision-making and business activities of the Company in circumvention of the general meeting.

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

(IV) Supervisors and the Supervisory Committee: The Supervisors possess professional knowledge and work experience in management, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the Chief Executive Officer and other members of the senior management to safeguard the legal rights and interests of the Company and shareholders. The Company has formulated the Rules of Procedure for 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 Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors has formulated the Share Option Incentive Scheme of the Company, which has been approved at the general meeting of the Company. The grant of share options was completed in October 2013 and registration was completed in November 2013.

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

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

(VIII) Rules and regulations established

No.	Title	Date of disclosure[Note]
1	Articles of Association	14 June 2014
2	Rules of Procedure of the General Meetings	20 May 2009
3	Rules of Procedure of the Board of Directors Meetings	26 May 2012
4	Rules of Procedure of the Supervisors' Meetings	7 April 2006
5	Working Rules for the Nomination Committee of the Board of Directors	27 April 2013
6	Working Rules for the Audit Committee of the Board of Directors	29 March 2012
7	Working Rules for the Remuneration and Evaluation Committee of the Board of Directors	29 March 2012
8	System of Derivative Investment Risk Control and Information Disclosure	28 April 2010
9	System for the Administration of External Information Users	9 April 2010
10	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
11	System of Registration of Owners of Inside Information	23 August 2012
12	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
13	System of Annual Report Duties for Independent Directors	14 March 2008
14	Guidelines for Work of the Audit Committee of the Board of Directors relating to the Annual Report	14 March 2008
15	Independent Director System	26 June 2007
16	Administrative Measures for Guest Reception and Promotion	26 June 2007
17	Administrative Rules of the Company on Issue Proceeds	26 June 2007
18	Internal Control System	21 August 2014
19	Administrative Rules for Information Disclosure	26 June 2007
20	Implementation Rules for the Dealings in Company's Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007

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

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

1. Implementation of specific corporate governance activities

During the year, the Company's Internal Control and Audit Department revised the "ZTE Internal Control System" in accordance with the Basic Rules for Corporate Internal Control and other pertinent laws and regulations, taking into account the business characteristics and implementation status of internal control of the Company. The revised Internal Control System was considered and passed at the Nineteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 20 August 2014 and published on http://www.cninfo.com.cn on 21 August 2014.

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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 subjected 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 2013 Annual General Meeting of the Company convened on-site on 29 May 2014, the "2013 Annual Report (comprising the financial statements for the year ended 31 December 2013 audited by the PRC and Hong Kong auditors)", "Report of the Board of Directors of the Company for the year ended 31 December 2013", "Report of the Supervisory Committee of the Company for the year ended 31 December 2013", "Report of the President of the Company for the year ended 31 December 2013", "Final financial accounts of the Company for the year ended 31 December 2013", "Profit distribution proposal of the Company for the year ended 31 December 2013", "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 2014", "Resolution on the application for investment limits in derivative products of the Company in 2014", "Resolution on matters pertaining to debt financing of ZTE (H.K.) Limited", "Resolution on General Mandate for 2014", "Resolution on additions to the scope of business and the amendment of relevant clauses of the 'Articles of Association' to reflect the same" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the 2013 Annual General Meeting of ZTE Corporation" published by the Company on 30 May 2014 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

At the First Extraordinary General Meeting of 2014 of the Company held on 15 October 2014 by way of a combination of on-site voting and online voting, the "Resolution on the Provision of Guarantee by the Company for ZTE (H.K.) Limited, a Wholly-owned Subsidiary, in respect of Debt Financing", "Resolution on the Proposed Registration and Issue of Perpetual Medium Term Note of the Company" and "Resolution on the Provision of Performance Guarantee by the Company for ZTE (MALAYSIA) CORPORATION SDN BHD, a Wholly-owned Subsidiary" were considered and approved. For details of the resolutions, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2014 of ZTE Corporation" published by the Company on 16 October 2014 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

IV. Performance of the Independent Non-executive Directors

During the year, the Independent Non-executive Directors played a significant role in optimising the corporate governance structure of the Company and protecting the interests of minority shareholders. During the year, the Independent Non-executive Directors of the Company did not dispute any resolutions passed at the Board of Directors meetings and other matters of the Company. In relation to important matters on which they were required to give independent opinions (including connected transactions, third-party guarantees and third-party investments), the Independent Non-executive Directors have diligently reviewed the matters concerned and have issued independent opinions in writing. By providing valuable and professional recommendations on major decisions by the Company, the Independent Non-executive Directors have improved the rationality and objectiveness of the Company's decisions.

Attendance of Independent Non-executive Directors of the Company at Board of Directors meetings and general meetings in 2014 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 attend in person at two consecutive meetings	Attendance at general meetings
Qu Xiaohui	10	8	2	0	0	No	1
Wei Wei	10	6	2	2	0	No	1
Chen Naiwei	10	8	2	0	0	No	2
Tan Zhenhui	10	6	2	2	0	Yes[Note]	2
Richard Xike Zhang	10	7	2	1	0	No	0

Note: Independent Non-executive Director Mr. Tan Zhenhui was not able to attend the Twenty-second Meeting and the Twenty-third Meeting of the Sixth Session of the Board of Directors due to work reasons and appointed in writing Independent Non-executive Director Mr. Chen Naiwei to vote on his behalf at both meetings.

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2014 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 26 March 2015.

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

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

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1. Performance of principal duties by the Audit Committee

During the year, the Audit Committee diligently performed its duties in accordance with the "Working Rules for 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 2014 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 2013; key financial indicators calculated on the basis of data from the 2014 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2013. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2014 annual report was in compliance with the accounting standards for business enterprises and their practice notes.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2014. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2014 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 January 2015. 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 2014 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 2014 to March 2015. 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 2014 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 2015, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2015.

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

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

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

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

The Remuneration and Evaluation Committee has conducted detailed examination of disclosed remuneration of Directors, Supervisors and senior management of the Company, and is of the view that the procedure for determining the remuneration of Directors, Supervisors and senior management of the Company is in compliance with relevant provisions, and that the remuneration of Directors, Supervisors and senior management of the Company disclosed in the 2014 annual report of the Company is true and accurate.

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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 employment and dismissal of senior management personnel, and the review of the structure, headcount and composition (in terms of skills, know-how and experience) of the Board of Directors.

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, connected transactions and third-party investments of the Company 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 its controlling shareholder and integrity in staffing, assets, finance, business and organisation

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

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

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

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

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

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

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

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

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

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

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January to 31 December 2014.

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.

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

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

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details, please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details, please refer to Article 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company shall be required to give explanations in response to queries and suggestions of shareholders. In 2014, 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 key senior management members will attend the meeting on a best effort basis and engage in direct dialogue with the shareholders during the arranged Q&A sessions. Details of the Company’s reception of investors during 2014 are set out in the section of this report headed “Report of the Board of Directors (II) 19. Reception of Investors, Communications and Press Interviews During the Year”.

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

In line with the Company’s business development, its scope of business was amended with the addition of “technical design, development, consultancy and services for new energy power generation and application systems,” and such additions were incorporated into the Articles of Association under Article 14 (clause on the scope of business). Such amendments were considered and approved at the Annual General Meeting of 2013 of the Company convened on 29 May 2014. For details, please refer to the “Announcement on Resolutions of the Annual General Meeting of 2013” 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 Company 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 plan and investment proposal 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 2014. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board

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

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

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

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

A Director (including Non-executive Director) of the Company is appointed for a term of 3 years and is eligible for re-election upon conclusion of each term. An Independent Non-executive Director can hold office for a maximum of 6 years. The term of office of each of Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 30 March 2013 and shall end on 21 July 2015. The term of office of Mr. Richard Xike Zhang as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 30 June 2013 and shall end on 29 March 2016. Other than the above, the term of office of all Directors of the Sixth Session of the Company commenced on 30 March 2013 and shall end on 29 March 2016.

The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company. There was no change in the Directors of the Company during the year.

Corporate Governance Structure

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2014, the Board of Directors of the Company convened 10 meetings. In 2014, the Company convened 2 general meetings. Attendance of Directors at the meetings of the Board of Directors and the general meetings in 2014 was set out in the following table:

	Board meetings			General meetings	
Number of meetings	10			2	
Directors	**Attendance in person**	**Attendance by proxy**	**Attendance** Note	**Attendance in person**	**Attendance** Note
Chairman and Non-executive Director					
Hou Weigui	6	4	6/10	2	2/2
Vice Chairman and Non-executive Director					
Zhang Jianheng	4	6	4/10	0	0/2
Xie Weiliang	7	3	7/10	1	1/2
Non-executive Director					
Wang Zhanchen	8	2	8/10	1	1/2
Zhang Junchao	8	2	8/10	1	1/2
Dong Lianbo	6	4	6/10	1	1/2
Executive Director					
Shi Lirong	9	1	9/10	1	1/2
Yin Yimin	6	4	6/10	0	0/2
He Shiyou	8	2	8/10	0	0/2
Independent Non-executive Director					
Qu Xiaohui	10	0	10/10	1	1/2
Wei Wei	8	2	8/10	1	1/2
Chen Naiwei	10	0	10/10	2	2/2
Tan Zhenhui	8	2	8/10	2	2/2
Richard Xike Zhang	9	1	9/10	0	0/2

Note: Attendance by proxy was not counted for the percentage of attendance.

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

   As for interim Board of Directors meetings which are convened by way of voting via telecommunication means 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 the Directors to ensure that the procedures of the Board of Directors are 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 minute-takers, 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 of the Company are deemed by the Board of Directors to involve a material conflict of interest, abstention measures are adopted and the Directors who are by any means connected with such transactions would abstain from voting.

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

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

(VI) Chairman and the Chief Executive Officer

The offices of the Chairman and that of the Chief Executive Officer of the Company are two distinctively separated positions, assumed by Mr. Hou Weigui and Mr. Shi Lirong, respectively. Their respective duties and functions are clearly defined in the Articles of Association. Duties of the Chairman and the Chief Executive Officer 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 Company 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 Company to take charge of the day-to-day management and operation of the Company in accordance with the objectives and directions set by the Board of Directors and the internal control policy and procedures of the Company.

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

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

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

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ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organise 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, the Directors of the Company received the following training focused on the roles, functions and duties of directors of listed companies in 2014:

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

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 Nineteenth Meeting of the Sixth Session of the Board of Directors held on 20 August 2014, the "Resolution on Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the Company's contract with Chartis Insurance Company Limited, Shenzhen Branch was extended for one year with a compensation limit of RMB100 million per annum.

III. Specialised Committees under the Board

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

(I) The Remuneration and Evaluation Committee

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

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

2. Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Non-executive Directors and 2 Non-executive Directors. As at the end of the year, the convenor of the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors is Mr. Wei Wei, Independent Non-executive Director. Members of the committee include Mr. Hou Weigui, Mr. Zhang Jianheng, Ms. Qu Xiaohui, Mr. Tan Zhenhui and Mr. Richard Xike Zhang. The Remuneration and Evaluation Committee held 4 meetings in 2014. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in person	Attendance by proxy
Wei Wei	4/4	0/4
Hou Weigui	3/4	1/4
Zhang Jianheng	2/4	2/4
Qu Xiaohui	4/4	0/4
Tan Zhenhui	3/4	1/4
Richard Xike Zhang	4/4	0/4

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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 implementation of 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 4 meetings in 2014 mainly to:

a) consider the preliminary drafts of the Company's evaluation and incentive plans for the President, Executive Vice Presidents and Senior Vice Presidents of 2014;

b) consider the resolution on the performance of and annual bonus amount for the President of the Company for 2013, and submit the same to the Board of Directors of the Company 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 2013, and submit the same to the Board of Directors of the Company for consideration and approval;

d) consider the resolution on the principles for determining the 2013 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 2013;

f) consider the report on the Company's remuneration budget in 2014;

g) consider the resolution on Performance Management Measures for the President of the Company for 2014, and submit the same to the Board of Directors of the Company for consideration and approval;

h) consider the resolution on Performance Management Measures for other senior management personnel of the Company for 2014, and submit the same to the Board of Directors of the Company for consideration and approval;

i) 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 of the Company for consideration and approval;

(II) The Nomination Committee

1. The role and functions of the Nomination Committee

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

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 year, the convenor of the Nomination Committee of the Sixth Session of the Board of Directors is Mr. Tan Zhenhui, Independent Non-executive Director, and members of the committee include Mr. Hou Weigui, Mr. Xie Weiliang, Mr. Wang Zhanchen, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Richard Xike Zhang.

The Nomination Committee held 1 meeting in 2014. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in person	Attendance by proxy
Tan Zhenhui	1/1	0/1
Hou Weigui	1/1	0/1
Xie Weiliang	1/1	0/1
Wang Zhanchen	0/1	1/1
Wei Wei	1/1	0/1
Chen Naiwei	1/1	0/1
Richard Xike Zhang	1/1	0/1

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

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

(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》), the Hong Kong Listing Rules, the Articles of Association and the Rules of Procedures of the Board of Directors, etc.

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

4. Work of the Nomination Committee during the year

In 2014, the Nomination Committee held 1 meeting mainly to consider the resolution on the proposed appointment and dismissal of senior management personnel and submit the same to the Board of Directors of the Company for consideration and approval.

(III) The Audit Committee

1. The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and removal, remuneration and terms of engagement of external auditors, supervising the Company's internal audit system and its implementation, examining 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 year, the convenor of the Audit Committee of the Sixth Session of the Board of Directors is Ms. Qu Xiaohui, Independent Non-executive Director, and members of the committee include Mr. Hou Weigui, Mr. Zhang Junchao, Mr. Dong Lianbo, Mr. Wei Wei, Mr. Chen Naiwei and Mr. Tan Zhenhui. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee held 8 meetings in 2014. Attendance at the meetings was as follows:

Members of the Audit Committee	**Attendance in person**	**Attendance by proxy**
Qu Xiaohui	8/8	0/8
Hou Weigui	5/8	3/8
Zhang Junchao	6/8	2/8
Dong Lianbo	5/8	3/8
Wei Wei	7/8	1/8
Chen Naiwei	8/8	0/8
Tan Zhenhui	5/8	3/8

3. Work of the Audit Committee during the year

In 2014, the Audit Committee held 8 meetings mainly to:

a) consider the financial report of the Company for the year ended 31 December 2013, and submit the same to the Board of Directors of the Company for consideration and approval;

b) receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2013;

c) consider the resolution of the Company on 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;

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

e) consider the resolution of the Company on continuing connected transaction relating to the entering into of a channel cooperation agreement with 航天歐華, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

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

g) receive the report of Ernst & Young on the financial audit of the Company in 2013;

h) receive the report of Ernst & Young on the internal control audit of the Company in 2013;

i) receive the explanatory statement of Ernst & Young on the 2013 continuing connected transactions of the Company;

j) consider the summary report on the audit of the Company performed by the PRC and Hong Kong auditors in 2013;

k) consider the audit fees payable to the PRC and Hong Kong auditors for the year ended 31 December 2013 and submit the same to the Board of Directors of the Company for consideration and approval;

l) consider resolutions on the appointment of the PRC and Hong Kong auditors of the Company for 2014 and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

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

n) consider the report of the Company on derivative investments in 2013;

o) consider the resolution on the application for investment limits in derivative products of the Company for 2014 and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

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p) consider the assessment report on internal control of the Company for the year ended 31 December 2013;

q) consider the report of the Company on the "2013 Summary Report and 2014 Work Plan for Internal Control and Audit";

r) consider the resolution of the Company on matters pertaining to debt financing of ZTE (H.K.) Limited and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

s) consider the resolution of the Company on the proposed capital contribution to and subscription for Zhonghe Chunsheng Fund II and submit the same to the Board of Directors of the Company for consideration and approval;

t) consider the report on the preparation of the Company's First Quarterly Report of 2014 and submit the same to the Board of Directors of the Company for consideration and approval;

u) consider the report of the Company on derivative investments in the first quarter of 2014;

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

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

x) consider the 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;

y) consider the interim financial report of the Company for the six months ended 30 June 2014 and submit the same to the Board of Directors of the Company for consideration and approval;

z) 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 2014;

aa) consider the internal control and audit work report of the Company for the six months ended 30 June 2014;

bb) consider the resolution of the Company on the amendment of the ZTE Internal Control System and submit the same to the Board of Directors of the Company for consideration and approval;

cc) review the report of the Company on derivative investments in the first six months of 2014;

dd) consider the report on the preparation of the Company's Third Quarterly Report of 2014 and submit the same to the Board of Directors of the Company for consideration and approval;

ee) review the report of the Company on derivative investments in the first three quarters of 2014;

ff) consider the resolution of the Company on revising the maximum aggregate amount of transactions for continuing connected transactions in respect of the purchase of software outsourcing services in 2014 from Nanchang Software, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

gg) consider the resolution of the Company on continuing connected transaction in respect of the execution of the 2014 sales framework agreement with Nanchang Software, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

hh) consider the resolution of the Company on continuing connected transaction in respect of the execution of the 2015 channel cooperation agreement with 航天歐華, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

ii) consider the resolution of the Company on continuing connected transactions in respect of the execution of the 2015-2017 software outsourcing procurement framework agreement with Huatong, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

jj) consider the resolution of the Company on continuing connected transactions in respect of the execution of the 2015-2017 software outsourcing procurement framework agreement with Nanchang Software, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

kk) consider the resolution of the Company on continuing connected transactions in respect of the execution of the 2015-2017 sales framework agreement with Nanchang Software, 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 continuing connected transactions in respect of the execution of the 2015-2017 property leasing agreement with Chongqing Zhongxing Development, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval; and

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

(IV) Corporate governance functions

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

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

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

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

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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, 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 2014 are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1. Service contracts and contractual interests of 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 or had been 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 2014.

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 2014 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, senior management and annual remuneration."

Save as disclosed above, as at 31 December 2014, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 31 December 2014, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

4. Securities transactions by Directors and Supervisors

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

V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the Company for 2014 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 35 to the financial statements prepared in accordance with HKFRSs.

VI. Auditors' Remuneration

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 10 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 11 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 6 years and the year under review was the fifth year for which he acted in the capacity of undersigning accountant. Ms. Fu Jie has been providing audit services to the Company for 7 years and the year under review was the third 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 2014 were paid in a consolidated manner, whereby an aggregate audit fee of RMB5.85 million was paid to Ernst & Young Hua Ming and Ernst & Young.

At the Sixteenth Meeting of the Sixth Session of the Board of Directors of the Company on 26 March 2014, it was approved that Ernst & Young Hua Ming be appointed the Company's internal control auditor for 2014. The amount of 2014 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB824,000.

In 2014, Ernst & Young (China) Advisory Limited, Shenzhen Branch ("Ernst & Young Consulting") provided tax advisory services to the overseas subsidiaries of the Company and its subsidiary Shenzhen Zhongxing Software Company Limited for a fee of RMB944,500. Ernst & Young provided tax return and tax advisory services to the Company and its subsidiaries ZTE HK and Xinxun International (Hong Kong) Limited for a fee of HKD189,500. Ernst & Young Hua Ming provided advisory services to the Company relating to its 2014 sustainable development report for a fee of RMB140,000. Save as the aforesaid three instances, Ernst & Young Hua Ming, Ernst & Young and Ernst & Young Consulting did not provide other significant non-audit services to the Group.

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Item	Amount	Auditor
Audit fees 2014	RMB5.85 million	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2014	RMB824,000	Ernst & Young Hua Ming
Fees for tax advisory services 2014	RMB944,500	Ernst & Young Consulting
Fees for tax return and tax advisory services 2014	HKD189,500	Ernst & Young
Fees for advisory services relating to the 2014 sustainable development report	RMB140,000	Ernst & Young Hua Ming

VII. Company Secretary

The Company Secretary (Mr. Feng Jianxiong) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees (I) Brief Biographies of Directors, Supervisors and Senior Management". In 2014, the Company Secretary received more than 15 hours of training to update his professional skills and expertise.

VIII. Accountability and Audit

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

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

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2014 is set out in the Independent Auditors' Report in pages 318–319 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 2014. During the year, the Company engaged an independent consultant agency to improve the conventions, processes and methodologies relating to risk management and internal control in a systematic manner, commenced internal control handbook updating and self-assessment of internal control on the basis of internal control work conducted in 2013, and exercised ongoing control over significant operating risks. All in all, the Company has established and effectively implemented an internal control regime that meets its operational needs and covers all segments of the Company's operation. The Company will continue to adjust and improve the development of its internal control regime in a timely manner in response to changes in internal and external conditions.

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

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation during the financial year ended 31 December 2014.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. An assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2014, please refer to the section of this report headed "Internal Control".

Internal Control

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

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

I. Overview of internal control development and improvement

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

2. Establishment of internal control departments and internal control implementation

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board, the Audit Committee, the risk control work steering group, the Internal Control and Audit Department Risk Control Team, the risk control directors and managers of various business units. In 2014, the Company focused on the following internal control operations:

The Company's internal control work during the first quarter of 2014 mainly involved overall review and evaluation of its internal control work in 2013, convened the start-up meeting for internal control and risk management operations in 2014 and made plans for internal control and risk management in 2014. For details, please refer to the section headed "Material Matters" in the 2014 first quarterly report of the Company.

During the second quarter of 2014, the Company engaged an independent consultant agency to improve the conventions, processes and methodologies relating to risk management and internal control in a systematic manner, drive the advanced development of risk management and internal control and enhance specialised capabilities in risk management and internal control. For details, please refer to the section headed "Material Matters" in the 2014 Interim Report of the Company.

During the third quarter of 2014, the Company conducted several training sessions on risk management and internal control tailored for intermediary management officers and members of the risk control teams, commenced internal control handbook updating and self-assessment of internal control, and exercised ongoing control over significant operating risks. For details, please refer to the section headed "Material Matters" in the 2014 third quarterly report of the Company.

Internal control performed during the fourth quarter of 2014:

1. Reviewing risk management and internal control in 2014, assessing the progress of risk control in key business operations such as sales, purchase and research and development, and starting to formulate the internal control plan for 2015.

2. Conducting analyses on key risks faced by the Company's operations, with special emphasis on risks associated with foreign exchange movements, deterioration of political situations in Eastern Europe, end customer credibility and legal compliance on a global basis.

3. Working with Ernst and Young Hua Ming (LLP) on the audit of the Company's internal control for 2014.

4. Review, finalisation and publication of the 2014 internal control handbook of the Company.

5. Enhancing promotion of the anti-corruption culture through newsletters, weibo messages and mails.

(II) OPINION ON INTERNAL CONTROL ASSESSMENT

1. The 2014 Internal Control Assessment Report published by the Company

The Company has conducted an assessment on the effectiveness of its internal control as at 31 December 2014 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control.

Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting, as at the record date for the internal control assessment report, there was no significant deficiency in internal control in relation to financial reporting. The Board of Directors is of the view that the Company has maintained effective internal control in relation to financial reporting in all material aspects in accordance with the internal control regulatory regime and pertinent regulations.

Based on the work of identifying significant deficiencies in the Company's internal control in relation to non-financial reporting, as at the record date for the internal control assessment report, the Company was not aware of any significant deficiency in internal control in relation to non-financial reporting.

There were no events occurring during the period from the record date for the internal control assessment report to the date of publication of the internal control assessment report that would have affected the conclusion on the assessment of the effectiveness of internal control.

For details of the Company's internal control, please refer to the "2014 Internal Control Assessment Report of ZTE Corporation" published by the Company on 26 March 2015 on http://www.cninfo.com.cn.

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

In accordance with the provisions of the Rules for Corporate Internal Control, the Board of Directors of the Company is responsible for the development and effective implementation of effective internal control, assessment of the effectiveness thereof and truthful disclosure of the internal control assessment report. The Board of Directors of

Internal Control

the Company warrants that there are no false records or misleading statements in or material omissions from the Company's 2014 Internal Control Assessment Report and collectively and individually accept legal responsibility for the truthfulness, accuracy and completeness of the contents of the said report.

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

Therefore, the Board of Directors of the Company is of the view that the Company has not identified any significant defects in the design or implementation of internal control in 2014. The Company's 2014 Internal Control Assessment Report is in line with the status of internal control at the Company.

3. Opinion of the Supervisors of the Company on the 2014 Internal Control Assessment Report of the Company

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

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

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

In view of the above and having reviewed the Company's 2014 Internal Control Assessment Report, the Supervisory Committee is of the view that the 2014 Internal Control Assessment Report of the Company is a true, objective and complete reflection of the status of the Company's internal control, and has no objection to the 2014 Internal Control Assessment Report of the Company.

4. Independent Opinion of the Independent non-executive Directors of the Company on the 2014 Internal Control Assessment Report of the Company

(1) The Company has established a comprehensive internal control regime in compliance with relevant laws, administrative regulations and departmental rules and regulations of the State. In 2014, 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 organized manner taking into account its specific conditions, business development and management requirements.

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

(3) The 2014 Internal Control Assessment Report of the Company duly reflects the status of the Company's internal Control.

5. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the China Code of Ethics for Certified Public Accountants, Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2014 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 26 March 2015 on http://www.cninfo.com.cn.

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

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

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

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

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

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

Report of the PRC Auditors

Ernst & Young Hua Ming (2015) Shen Zi No. 60438556_H01

EY 安永

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 2014, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2014 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 2014 and the consolidated and company results of operations and cash flows of ZTE Corporation for the year ended 31 December 2014.

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)**
	25 March 2015

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	**2014**	2013 (Restated)
Current assets			
Cash	1	**18,115,874**	20,903,035
Financial assets dealt with at fair value through current profit and loss	2	**240,973**	217,454
Bills receivable	3	**2,086,771**	3,500,671
Trade receivables	4	**25,152,963**	21,393,257
Factored trade receivables	4	**3,160,705**	3,338,801
Other receivables	5	**2,159,677**	1,729,163
Prepayments	6	**682,778**	751,405
Inventories	7	**19,592,298**	12,434,352
Amount due from customers for contract works	8	**11,033,468**	12,137,144
Total current assets		**82,225,507**	76,405,282
Non-current assets			
Available-for-sale financial assets	9	**1,739,664**	1,630,271
Long-term trade receivables	10	**266,501**	366,762
Factored long-term trade receivables	10	**1,701,978**	2,311,525
Long-term equity investments	11	**461,316**	478,037
Investment properties	12	**2,004,465**	1,855,246
Fixed assets	13	**7,348,292**	7,449,476
Construction in progress	14	**262,863**	177,423
Intangible assets	15	**1,364,695**	1,236,755
Deferred development costs	16	**3,483,505**	2,932,148
Deferred tax assets	17	**1,284,493**	1,353,033
Long-term deferred assets		**53,287**	70,942
Other non-current assets	19	**4,017,630**	3,812,597
Total non-current assets		**23,988,689**	23,674,215
TOTAL ASSETS		**106,214,196**	100,079,497

Consolidated Balance Sheet (continued)

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

Liabilities and shareholder's equity	Note V	2014	2013 (Restated)
Current liabilities			
Short-term loans	20	**10,998,077**	12,589,032
Bank advances on factored trade receivables	4	**3,175,432**	3,377,374
Financial liabilities dealt with at fair value through current profit and loss	21	**70,604**	67,779
Bills payable	22	**10,381,688**	8,498,021
Trade payables	23	**19,244,400**	16,492,534
Amount due to customers for contract works	8	**3,825,106**	3,682,564
Advances from customers	24	**3,305,520**	2,776,366
Salary and welfare payables	25	**2,806,947**	2,462,006
Taxes payable	26	**(2,790,280)**	(1,251,859)
Dividends payable	27	**8,113**	34,963
Other payables	28	**7,531,970**	8,478,144
Deferred income		**451,507**	408,845
Provisions	29	**741,391**	601,111
Long-term loans due within one year	30	**6,174,257**	2,753,925
Total current liabilities		**65,924,732**	60,970,805
Non-current liabilities			
Long-term loans	31	**10,039,687**	5,385,673
Bank advances on factored long-term trade receivables	10	**1,701,978**	2,311,525
Bonds payable	32	**—**	6,119,590
Provision for retirement benefits	25	**115,450**	95,806
Deferred tax liabilities	17	**159,340**	139,900
Deferred income		**631,149**	—
Other non-current liabilities	33	**1,349,356**	1,430,509
Total non-current liabilities		**13,996,960**	15,483,003
Total liabilities		**79,921,692**	76,453,808

Consolidated Balance Sheet (continued)

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

Liabilities and Shareholder's equity	Note V	2014	2013 (Restated)
Shareholders' equity			
Share capital	34	**3,437,541**	3,437,541
Capital reserves	35	**8,724,754**	8,545,701
Other comprehensive income	36	**(464,275)**	(100,703)
Surplus reserve	37	**1,769,012**	1,613,195
Retained profits	38	**10,724,034**	8,933,788
Proposed final dividends	38	**687,508**	103,126
Total equity attributable to equity holders of the parent		**24,878,574**	22,532,648
Non-controlling interests		**1,413,930**	1,093,041
Total shareholders' equity		**26,292,504**	23,625,689
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**106,214,196**	100,079,497

The financial statements set out on pages 152 to 317 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	2014	2013 (Restated)
Operating revenue	39	**81,471,275**	75,233,724
Less: Operating costs	39	**55,760,104**	53,125,904
Taxes and surcharges	40	**1,331,243**	1,079,532
Selling and distribution costs	41	**10,259,165**	10,003,850
Administrative expenses	42	**2,031,445**	2,202,267
Research and development costs		**9,008,537**	7,383,892
Finance expenses	45	**2,100,977**	2,460,303
Impairment losses	46	**1,202,232**	1,589,486
Add: Gains from changes in fair values	43	**148,282**	204,010
Investment income	44	**134,474**	914,406
Including: Share of profits and losses of associates and joint ventures	44	**(53,043)**	34,466
Operating profit/(loss)		**60,328**	(1,493,094)
Add: Non-operating income	47	**3,787,643**	3,465,428
Less: Non-operating expenses	47	**309,749**	144,491
Including: Loss on disposal of non-current assets		**35,661**	18,066
Total profit	48	**3,538,222**	1,827,843
Less: Income tax	49	**810,492**	394,207
Net profit		**2,727,730**	1,433,636
Attributable to:			
Owners of the parent		**2,633,571**	1,357,657
Non-controlling interests		**94,159**	75,979
Other comprehensive income, net of tax		**(333,604)**	(279,262)
Other comprehensive income attributable to owners of the parent, net of tax	36	**(363,572)**	(301,911)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
Change in net liabilities arising from the re-measurement of defined benefit plans		**(16,599)**	7,040
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions		**3,090**	—
		(13,509)	7,040
Other comprehensive income will be reclassified to profit and loss in subsequent periods			
Changes in the fair value of available-for-sale financial assets		**(40,800)**	149,231
Effective portion of cash flow hedging instruments		**3,965**	5,784
Exchange differences on translation of foreign operations		**(313,228)**	(463,966)
		(350,063)	(308,951)
Other comprehensive income attributable to non-controlling interests, net of tax		**29,968**	22,649
Total comprehensive income		**2,394,126**	1,154,374

Consolidated Income Statement (continued)

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

	Note V	2014	2013 (Restated)
Attributable to:			
Owners of the parent		**2,269,999**	1,055,746
Non-controlling interests		**124,127**	98,628
Earnings per share (RMB/share)	50		
Basic		**RMB0.77**	RMB0.39
Diluted		**RMB0.77**	RMB0.39

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)

	2014								
	Equity attributable to equity holders of the parent								
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Proposed final dividends	Sub-total	Minority interests	Total shareholders' equity
I. Current year's opening balance	3,437,541	8,545,701	(100,703)	1,613,195	8,933,788	103,126	22,532,648	1,093,041	23,625,689
II. Changes during the year									
(I) Total comprehensive income	–	–	(363,572)	–	2,633,571	–	2,269,999	124,127	2,394,126
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	–	–	–	–	–	–	253,500	253,500
2. Equity settled share expenses charged to equity	–	178,241	–	–	–	–	178,241	–	178,241
3. Capital reduction by shareholders	–	–	–	–	–	–	–	(48,990)	(48,990)
4. Disposal of fractional shares	–	812	–	–	–	–	812	–	812
(III) Profit appropriation									
1. Appropriation to surplus reserves	–	–	–	155,817	(155,817)	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(103,126)	(103,126)	(7,748)	(110,874)
3. Proposed final dividends	–	–	–	–	(687,508)	687,508	–	–	–
III. Current year's closing balance	3,437,541	8,724,754	(464,275)	1,769,012	10,724,034	687,508	24,878,574	1,413,930	26,292,504

	2013 (Restated)								
	Equity attributable to equity holders of the parent								
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Proposed final dividends	Sub-total	Minority interests	Total shareholders' equity
I. Current year's opening balance	3,440,078	8,522,845	201,208	1,587,430	7,705,022	–	21,456,583	1,136,256	22,592,839
II. Changes during the year									
(I) Total comprehensive income	–	–	(301,911)	–	1,357,657	–	1,055,746	98,628	1,154,374
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	–	–	–	–	–	–	18,895	18,895
2. Equity settled share expenses charged to equity	(2,537)	22,856	–	–	–	–	20,319	–	20,319
3. Disposal of subsidiaries	–	–	–	–	–	–	–	(110,224)	(110,224)
4. Capital reduction by shareholders	–	–	–	–	–	–	–	(48,990)	(48,990)
(III) Profit appropriation									
1. Appropriation to surplus reserves	–	–	–	25,765	(25,765)	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	(1,524)	(1,524)
3. Proposed final dividends	–	–	–	–	(103,126)	103,126	–	–	–
III. Current year's closing balance	3,437,541	8,545,701	(100,703)	1,613,195	8,933,788	103,126	22,532,648	1,093,041	23,625,689

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	2014	2013
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**88,611,704**	81,718,914
	Refunds of taxes		**6,231,137**	7,084,639
	Cash received relating to other operating activities	51	**2,421,604**	1,768,549
	Sub-total of cash inflows		**97,264,445**	90,572,102
	Cash paid for goods and services		**67,684,267**	62,736,010
	Cash paid to and on behalf of employees		**12,372,398**	11,606,711
	Cash paid for all types of taxes		**6,608,317**	5,801,983
	Cash paid relating to other operating activities	51	**8,086,828**	7,852,820
	Sub-total of cash outflows		**94,751,810**	87,997,524
	Net cash flows from operating activities	52	**2,512,635**	2,574,578
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**1,314,820**	987,347
	Cash received from return on investment		**155,642**	183,098
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**72,015**	5,955
	Net cash received from the disposal of subsidiaries		**289,890**	1,318,667
	Sub-total of cash inflows		**1,832,367**	2,495,067
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**2,067,604**	2,336,926
	Cash paid for acquisition of investments		**1,387,493**	1,820,312
	Sub-total of cash outflows		**3,455,097**	4,157,238
	Net cash flows from investing activities		**(1,622,730)**	(1,662,171)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**253,500**	18,895
	Including: Capital injection into subsidiaries by minority shareholders		**253,500**	18,895
	Cash received from borrowings		**39,500,323**	23,357,872
	Sub-total of cash inflows		**39,753,823**	23,376,767
	Cash repayment of borrowings		**41,621,563**	24,372,924
	Cash payments for distribution of dividends, profits and for interest expenses		**1,858,509**	1,685,508
	Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**34,598**	157,567
	Sub-total of cash outflows		**43,480,072**	26,058,432
	Net cash flows from financing activities		**(3,726,249)**	(2,681,665)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(51,790)**	(772,103)
V.	**Net increase in cash and cash equivalents**		**(2,888,134)**	(2,541,361)
	Add: cash and cash equivalents at beginning of year		**20,118,274**	22,659,635
VI.	**Net balance of cash and cash equivalents at the end of year**	52	**17,230,140**	20,118,274

Balance Sheet

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

Assets	Note XV	2014	2013 (Restated)
Current assets			
Cash		**10,025,991**	12,163,330
Financial assets dealt with at fair value through current profit and loss		**53,390**	69,300
Bills receivable		**1,873,999**	2,851,182
Trade receivables	1	**36,620,720**	34,030,487
Factored trade receivables	1	**1,259,713**	2,084,134
Prepayments		**66,692**	29,328
Dividend receivable		**2,487,128**	1,970,264
Other receivables	2	**6,338,933**	10,454,633
Inventories		**12,353,923**	7,056,518
Amount due from customers for contract works		**7,799,190**	7,029,635
Total current assets		**78,879,679**	77,738,811
Non-current assets			
Available-for-sale financial assets	3	**373,555**	373,555
Long-term trade receivables	4	**5,480,245**	4,517,856
Factored long-term trade receivables	4	**1,287,954**	1,968,052
Long-term equity investments	5	**6,884,411**	6,430,526
Investment properties		**1,597,919**	1,496,338
Fixed assets		**4,458,748**	4,751,559
Construction in progress		**11,909**	14,393
Intangible assets		**515,110**	451,947
Deferred development costs		**846,625**	665,650
Deferred tax assets		**674,629**	762,009
Long-term deferred assets		**44,518**	50,778
Other non-current assets		**3,879,675**	3,596,641
Total non-current assets		**26,055,298**	25,079,304
TOTAL ASSETS		**104,934,977**	102,818,115

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 XV	2014	2013 (Restated)
Current liabilities			
Short-term loans		**8,418,581**	8,375,865
Financial liabilities dealt with at fair value through current profit and loss		**17,587**	12,575
Bank advances on factored trade receivables		**1,274,440**	2,122,707
Bills payable		**12,389,807**	10,250,993
Trade payables		**31,214,686**	34,200,975
Amount due to customers for contract works		**2,654,158**	2,496,029
Advances from customers		**3,411,519**	2,896,512
Salary and welfare payables		**771,370**	688,982
Taxes payable		**(2,377,915)**	(1,286,296)
Dividends payable		**156**	152
Other payables		**19,020,951**	17,178,123
Deferred income		**191,584**	80,401
Provisions		**388,995**	349,291
Long-term loans due within one year		**6,131,185**	—
Total current liabilities		**83,507,104**	77,366,309
Non-current liabilities			
Long-term loans		**2,980,100**	1,780,000
Bank advances on factored long-term trade receivables		**1,287,954**	1,968,052
Bonds payable		**—**	6,119,590
Provision for retirement benefits		**115,450**	95,806
Deferred tax liabilities		**158,350**	138,400
Other non-current liabilities		**1,348,475**	1,430,509
Total non-current liabilities		**5,890,329**	11,532,357
Total liabilities		**89,397,433**	88,898,666
Shareholders' equity			
Share capital		**3,437,541**	3,437,541
Capital reserves		**8,740,683**	8,561,630
Other comprehensive income		**720,953**	736,957
Surplus reserve		**1,107,256**	951,439
Retained profits		**843,603**	128,756
Proposed final dividends		**687,508**	103,126
Total shareholders' equity		**15,537,544**	13,919,449
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**104,934,977**	102,818,115

Income Statement

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

	Note XV	2014	2013
Operating revenue	6	**76,598,340**	68,951,943
Less: Operating costs	6	**64,426,341**	58,380,388
Taxes and surcharges		**733,974**	628,622
Selling and distribution costs		**6,522,405**	6,012,345
Administrative expenses		**1,224,755**	1,323,247
Research and development costs		**2,606,804**	2,173,020
Finance expenses		**1,404,784**	2,061,598
Impairment losses		**851,874**	1,149,141
Add: Gains from changes in fair values		**75,934**	136,906
Investment income	7	**2,017,647**	1,910,787
Including: Share of profits and losses of associates and jointly-controlled entities	7	**(58,304)**	35,898
Operating profit/loss		**920,984**	(728,725)
Add: Non-operating income		**848,779**	898,979
Less: Non-operating expenses		**137,504**	50,200
Including: Loss on disposal of non-current assets		**21,221**	13,568
Total profit		**1,632,259**	120,054
Less: Income tax		**74,087**	(255,869)
Net profit		**1,558,172**	375,923
Other comprehensive income, net of tax			
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
Change in net liabilities arising from the re-measurement of defined benefit plans		**(16,599)**	7,040
Other comprehensive income will be reclassified to profit and loss in subsequent periods			
Exchange differences on translation of foreign operations		**595**	(943)
Other comprehensive income, net of income tax effect on respective items		**(16,004)**	6,097
Total comprehensive income		**1,542,168**	382,020

Statement of Changes in Equity

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

	2014						
	Share capital	**Capital reserve**	**Other comprehensive income**	**Surplus reserve**	**Retained profit/(losses not made up for)**	**Proposed final dividends**	**Total shareholders' equity**
I. Current year's opening balance	**3,437,541**	**8,561,630**	**736,957**	**951,439**	**128,756**	**103,126**	**13,919,449**
II. Changes during the year							
(I) Total comprehensive income	**–**	**–**	**(16,004)**	**–**	**1,558,172**	**–**	**1,542,168**
(II) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2. Equity settled share expenses charged to equity	**–**	**178,241**	**–**	**–**	**–**	**–**	**178,241**
3. Disposal of fractional shares	**–**	**812**	**–**	**–**	**–**	**–**	**812**
(III) Profit appropriation							
1. Appropriation to surplus reserves	**–**	**–**	**–**	**155,817**	**(155,817)**	**–**	**–**
2. Distribution to shareholders	**–**	**–**	**–**	**–**	**–**	**(103,126)**	**(103,126)**
3. Proposed final dividends	**–**	**–**	**–**	**–**	**(687,508)**	**687,508**	**–**
III. Current year's closing balance	**3,437,541**	**8,740,683**	**720,953**	**1,107,256**	**843,603**	**687,508**	**15,537,544**

	2013 (Restated)						
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/(losses not made up for)	Proposed final dividends	Total shareholders' equity
I. Current year's opening balance	3,440,078	8,538,774	730,860	925,674	(118,276)	–	13,517,110
II. Changes during the year							
(I) Total comprehensive income	–	–	6,097	–	375,923	–	382,020
(II) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	–	–	–	–	–	–	–
2. Equity settled share expenses charged to equity	(2,537)	22,856	–	–	–	–	20,319
(III) Profit appropriation							
1. Appropriation to surplus reserves	–	–	–	25,765	(25,765)	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–
3. Proposed final dividends	–	–	–	–	(103,126)	103,126	–
III. Current year's closing balance	3,437,541	8,561,630	736,957	951,439	128,756	103,126	13,919,449

Cash Flow Statement

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

		2014	2013
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	**68,927,313**	66,576,915
	Refunds of taxes	**3,561,374**	4,662,932
	Cash received relating to other operating activities	**2,097,732**	1,333,177
	Sub-total of cash inflows	**74,586,419**	72,573,024
	Cash paid for goods and services	**61,745,917**	63,215,952
	Cash paid to and on behalf of employees	**4,332,398**	4,035,264
	Cash paid for all types of taxes	**761,629**	712,708
	Cash paid relating to other operating activities	**5,764,856**	4,622,116
	Sub-total of cash outflows	**72,604,800**	72,586,040
	Net cash flows from operating activities	**1,981,619**	(13,016)
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	**21,300**	21,300
	Cash received from return on investments	**145,189**	49,700
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**62,395**	4,606
	Net cash received from the disposal of subsidiaries	**291,233**	1,375,693
	Sub-total of cash inflows	**520,117**	1,451,299
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**611,424**	937,565
	Cash paid for acquisition of investments	**541,684**	264,674
	Sub-total of cash outflows	**1,153,108**	1,202,239
	Net cash flows from investing activities	**(632,991)**	249,060
III.	**Cash flows from financing activities**		
	Cash received from borrowings	**12,461,575**	15,074,922
	Sub-total of cash inflows	**12,461,575**	15,074,922
	Cash repayment of borrowings	**14,409,081**	17,088,287
	Cash payments for distribution of dividends, profits and for interest expenses	**1,322,215**	1,413,923
	Sub-total of cash outflows	**15,731,296**	18,502,210
	Net cash flows from financing activities	**(3,269,721)**	(3,427,288)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**(119,476)**	(328,755)
V.	**Net increase in cash and cash equivalents**	**(2,040,569)**	(3,519,999)
	Add: cash and cash equivalents at beginning of year	**11,756,438**	15,276,437
VI.	**Net balance of cash and cash equivalents at the end of year**	**9,715,869**	11,756,438

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 through a public offering of shares to the general public. 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.

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, new energy power generation and application 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.

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 25 March 2015. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

The consolidation scope for consolidated financial statement is determined based on the concept of control. For details of changes during the year, please refer to Note VI.

Notes to Financial Statements

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1. Basis of preparation

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises — Basic Standards" promulgated by the Ministry of Finance and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations subsequently announced and revised (collectively "ASBEs").

The financial statements are prepared on a going concern basis.

In the preparation of the financial statements, all items are recorded by using historical cost as the basis of measurement except for some financial instruments and investment properties. Impairment provision is made according to relevant regulation if the assets are impaired.

2. Adoption of certain revised/new accounting standards

In January to March 2014, the Ministry of Finance promulgated "ASBE No. 39 — Fair Value Measurement", "ASBE No. 40 — Joint Venture Arrangements" and "ASBE No. 41 — Disclosure of Interests in Other Entities", the amended "ASBE No. 2 — Long-term Equity Investments," "ASBE No. 9 — Employees' Remuneration," "ASBE No. 30 — Presentation of Financial Statements" and "ASBE No. 33 — Consolidated Financial Statements". The seven aforesaid accounting standards will come into effect on 1 July 2014, although overseas listing enterprises are encouraged to bring forward their implementation. In June 2014, the Ministry of Finance amended "ASBE No. 37 — Presentation of Financial Instruments" for implementation in financial reports in respect of 2014 and subsequent periods. As a company listed in both Mainland China and Hong Kong, the Company brought forward the implementation of 5 of the aforesaid ASBEs, other than ASBE No. 41 — Disclosure of Interests in Other Entities", "ASBE No. 2 — Long-term Equity Investments," and "ASBE No. 37 — Presentation of Financial Instruments," in the preparation of its 2013 financial statements, and made adjustments in accordance with relevant provisions for reconciliation. For discussions of the major impact of such implementation, please refer to the 2013 financial statements.

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2014 and the results of their operations and their cash flows for the year ended 31 December 2014.

2. Financial year

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

3. 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.

4. Business combination

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

Business combinations involving entities under common control

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

Assets and liabilities obtained by combining party in the business combination involving entities under common control (including goodwill arising from the acquisition of the merged party by the ultimate controller) are recognized on the basis of their carrying amounts at the combination date recorded on the financial statements of the ultimate controlling party. 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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Business combination (continued)

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.

5. 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 2014. Subsidiaries are those enterprises or entities which the Company has control over (including enterprises, separable components of investee units and structured entities controlled by the Company).

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All assets, liabilities, equities, income, costs and cash flows arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to minority shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to minority interests.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements (continued)

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

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

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

6. Classification of joint venture arrangements and joint operation

Joint venture arrangements are in the form of joint operation or joint venture enterprise. A joint operation is an joint venture arrangement under which the joint venture parties are entitled to assets and undertake liabilities under the arrangement. A joint venture enterprise is a joint venture arrangement under which the joint venture parties are only entitled to the net assets under such arrangement.

The following items should be recognised by a joint venture party in relation to its share of profit in the joint operation: solely held assets, as well as jointly held assets according to its share; solely assumed liabilities, as well as jointly assumed liabilities according to its share; income derived from its entitled share of production of the joint operation; income derived from the sales of production of production of the joint operation according to its share; solely incurred expenses, as well as expenses incurred by the joint operation according to its share.

7. Cash and cash equivalents

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Foreign currency translation

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

Upon initial recognition, foreign currency transactions are translated into the functional currency using the median exchange rate published by the PBOC at the beginning of the month in which 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 monetary items 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 non-monetary 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 non-monetary items.

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognized when one of the following criteria is met, that is, when a financial asset is written off from its account and balance sheet:

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

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

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

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

Classification and valuation of financial assets

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains or losses arising from amortisation or impairment are recognised in the current profit or loss.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Discounts or premiums are amortised using the effective interest method and recognised as interest income or expense. 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 until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

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

Classification and valuation of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise mainly derivative financial liabilities.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial liabilities (continued)

Other financial liabilities

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

Set-off of financial instruments

The net amount resulting from the set-off between financial assets and financial liabilities shall be presented in the balance sheet only if all of the following criteria are met: there is a statutory right to set off recognised amounts which is currently enforceable; the plan is settled on a net basis, or the realisation of the financial asset and the settlement of the financial liability take place at the same time.

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 current profit and loss, except for the effective portion of cash flow hedging recognised as other comprehensive income which is transferred to current profit and loss when profit and loss is affected by hedged items.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured. Objective evidences for impairment of financial assets include significant financial difficulties experienced by the issuer or debtor, default of contract terms (such as default or overdue of interest or principal payments) by the debtor, probable closure or other financial restructuring of the debtor and publicly available information indicating estimated future cash flow has decreased and such decrease being measurable.

Assets carried at amortised cost

If an impairment loss has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. The reduced amount is charged to profit or loss. Interest income after impairment is recognized by adopting the discount rate used for discounting future cash flow to its present value when determining the impairment loss. Loans and receivables for which there is no realistic expectation for future recovery and all collaterals have been realized or transferred to the Group shall be written off against loans and receivables and the corresponding impairment provision.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

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

Objective evidence of impairment in equity instruments available-for-sale includes a significant or prolonged decline in their fair value. Whether the decline is "significant" or not shall be determined by reference to the extent to which the fair value is lower the cost. Whether the decline is "prolonged" or not shall be determined by reference to the duration in which the fair value is lower than the cost. Where objective evidence of impairment exists, the accumulated loss of the transfer is represented by the balance of acquisition cost after deduction of the current fair value and impairment loss previously charged to profit and loss. 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.

The exercise of judgement is required to determine the meaning of "significant" or "prolonged." The Group makes its judgement based on the duration in which the fair value is lower than the cost and other factors.

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

Assets carried at cost

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

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.

Assets formed by the continuing involvement by way of the provision of financial guarantee in respect of the transferred financial assets shall be recognised as the lower of the book value of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount among considerations received to be required for repayment.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Accounts Receivable (continued)

(2) Accounts receivable for which bad debt provision is made on the basis of credit risk characteristic groups

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

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

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III. 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.

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost accounting. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognized in accordance with the following: for those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments. For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued. For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 — Swap of Non-monetary Assets.". For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 — Debt Restructuring."

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control. Control is defined as the power exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of long-term equity investments shall be adjusted. Cash dividend or profit distribution declared by the investee shall be recognised as investment gains for the period.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

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

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognized according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. 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 in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognized), provided that invested or sold assets constituting businesses shall be excluded. 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 the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

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. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred in full to current profit and loss. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

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.

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Fixed Assets

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

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

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

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

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

15. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including borrowing costs subject to capitalisation 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Borrowing costs

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

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

Capitalization of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

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

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

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

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Intangible assets (continued)

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.

18. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognizes as provision an obligation that is related to contingent matters when all of the following criteria are fulfilled:

(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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III. 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 XI. 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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III. 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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III. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognized as income-related government grants.

Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

22. Income tax

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

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

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;

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

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

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

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

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Leases

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

As lessee of operating leases

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

As lesser of operating leases

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

24. Hedge accounting

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

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

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III. 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 hedging instrument expires or is sold, terminated or exercised (with the expiry of rollover of the hedging strategic component or unfulfilled replacement or the termination of processing of the contract), if its designation as a hedge is revoked, or if the hedge no longer fulfills the accounting requirement of a hedge, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs or is fulfilled in actual terms.

25. Impairment

The Group assesses impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets and financial assets, 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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III. 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 remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

For accounting periods during which services are rendered by employees, short-term remuneration that will incur is recognised as liability and included in current profit and loss or related capital costs.

Retirement benefit (defined deposit scheme)

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Employee remuneration (continued)

Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme which requires the deposit of fees to an independently managed fund. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognized in the balance sheet and charged to shareholders' equity through Other Comprehensive Income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

Previous service costs are recognised as current expenses when: the defined benefit scheme is revised, or relevant restructuring costs or termination benefits are recognized by the Group, whichever earlier.

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognized as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognized and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognized, whichever earlier.

Other long-term employees' benefits

Other long-term employees' benefits provided to employees shall be recognised and measured as net liabilities or net assets where provisions regarding post-employment benefits are applicable, provided that changes shall be included in current profit and loss or related capital costs.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments and listed equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date. The Group measures assets or liabilities at fair value with the assumption that the orderly transaction of asset disposal or the transfer of liabilities takes place in the major market for the relevant assets or liabilities. Where there is no major market, the Group assumes such transaction takes place in the most favourable market for the relevant assets or liabilities. The major market (or most favourable market) is a trading market which the Group has access to on the measurement date. The Group adopts assumptions used by market participants when they price the asset or liability with the aim of maximizing its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilize the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilize the asset in the best way for generating economic benefits.

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents unobservable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognized in the financial statements to determine whether the level of fair value measurement should be changed.

28. Profit distribution

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates

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

Judgements

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

Revenue Recognition

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

For elements related to customised network solutions and certain network build-outs, revenues are 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.

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 III.20 to the consolidated financial statements.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

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.

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of financial assets

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

Depreciation and amortization

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

Deferred development costs

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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 2014 was RMB2,004,465,000 (31 December 2013: RMB1,855,246,000).

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IV. 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

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

Xi'an Zhongxing New Software Company Limited, recognized as a Key Software Enterprise within the National Programming Layout for the years from 2013 to 2014, is a national-grade hi-tech enterprise, subject to an enterprise income tax rate of 10%.

Nanjing Zhongxingxin Software Company Limited, recognized as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Cai Shui [2008] No. 1. The current year is its fifth profitable year and a 50% reduction in enterprise income tax rate of 25% is applicable.

Notes to Financial Statements

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IV. TAXATION (continued)

2. Tax concession (continued)

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

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for the current year as a national-grade hi-tech enterprise and an Important Software Enterprise under the National Planning Layout from 2013 to 2014.

Shenzhen ZTE Mobile Telecom Co., Ltd is subject to an enterprise income tax rate of 15% from 2014 to 2016 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% for the current year as a national-grade hi-tech enterprise and an Integrated Circuit Design Enterprise under the National Planning Layout from 2013 to 2014.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 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 10% from 2013 to 2014 a national-grade hi-tech enterprise and as an Important Software Enterprise under the National Planning Layout.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 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 2013 to 2014. The applicable enterprise income tax rate for the current year is 10%.

Xi'an Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2012 to 2014 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited has applied for the status of and been confirmed as an enterprise engaged in State-endorsed industries in the current year and is subject to an enterprise income tax rate of 15% for the current year.

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% for the years from 2013 to 2015 as a national-grade hi-tech enterprise

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

1. Cash

	2014	2013
Cash	**16,314**	24,760
Bank deposit	**17,381,254**	20,169,634
Other cash	**718,306**	708,641
	18,115,874	20,903,035

As at 31 December 2014, the Group's time deposit of RMB23,000,000 (31 December 2013: RMB23,000,000) was pledged to secure bank borrowings for a term of 1 year.

As at 31 December 2014, the Group's overseas currency deposits amounted to RMB6,039,157,000 (31 December 2013: RMB6,722,472,000). Funds placed overseas and subject to remittance restrictions amounted to RMB70,175,000 (31 December 2013: RMB27,493,000).

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 RMB167,428,000 (31 December 2013: RMB76,120,000) were not included in cash and cash equivalents.

2. Financial assets at fair value through current profit and loss

	2014	2013
Trading financial assets		
Derivative financial assets	**240,973**	217,454

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. The other component comprised the value of the conversion rights of the convertible bonds of China All Access (Holdings) Limited subscribed for by ZTE (H.K.) Limited, a wholly-owned subsidiary of the Company. For the year, gain arising from fair value changes of non-hedging derivative financial instruments amounting to RMB17,976,000 (2013: RMB174,829,000) was dealt with in current profit or loss.

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

3. Bills receivable

	2014	2013
Commercial acceptance bills	**988,599**	1,690,895
Bank acceptance bills	**1,098,172**	1,809,776
	2,086,771	3,500,671

Endorsed or discounted bills receivable outstanding on the balance sheet date are analysed as follows:

	2014		2013	
	De-recognised	**Not de-recognised**	De-recognised	Not de-recognised
Commercial acceptance bills	**294,779**	**44,028**	240,388	102,000
Bank acceptance bills	**—**	**—**	251,246	—
	294,779	**44,028**	491,634	102,000

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

As at 31 December 2014, no bills were pledged for obtaining short-term borrowing (31 December 2013: Nil).

As at 31 December 2014, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2013: Nil).

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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.

Aging analysis of trade receivables was as follows:

	2014	2013
Within 1 year	**23,604,948**	19,024,398
1 to 2 years	**2,626,579**	3,574,181
2 to 3 years	**1,310,146**	712,489
Over 3 years	**1,928,466**	1,833,407
	29,470,139	25,144,475
Less: bad debt provision for trade receivables	**4,317,176**	3,751,218
	25,152,963	21,393,257

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

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

4. Trade receivables (continued)

	2014				2013			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	509,312	2	509,312	100	507,337	2	507,337	100
For which bad debt provision has been collectively made based on credit risks								
0-6 months	20,307,402	69	–	–	16,094,642	63	–	–
7-12 months	3,297,545	11	292,712	9	2,929,756	12	234,541	8
13-18 months	1,712,530	6	425,970	25	2,684,587	11	621,248	23
19-24 months	914,049	3	580,641	64	886,725	4	542,964	61
2-3 years	1,304,670	4	1,083,910	83	680,822	3	484,522	71
Over 3 years	1,424,631	5	1,424,631	100	1,360,606	5	1,360,606	100
	28,960,827	98	3,807,864	13	24,637,138	98	3,243,881	13
	29,470,139	100	4,317,176		25,144,475	100	3,751,218	

As at 31 December 2014, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	173,226	173,226	100%	Debtor running into serious financial difficulties
Overseas carriers 2	162,995	162,995	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,858	77,858	100%	Debtor running into serious financial difficulties
Others	95,233	95,233	100%	Debtor running into serious financial difficulties
	509,312	509,312		

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

4. Trade receivables (continued)

As at 31 December 2013, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	170,331	170,331	100%	Debtor running into serious financial difficulties
Overseas carriers 2	160,272	160,272	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,282	77,282	100%	Debtor running into serious financial difficulties
Others	99,452	99,452	100%	Debtor running into serious financial difficulties
	507,337	507,337		

For 2014, there were no write-back, write-off or recovery of trade receivables which were individually significant and for which bad-debt provision had been made separately (2013: Nil).

Top 5 accounts of trade receivables as at 31 December 2014 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	4,429,239	15.03%	18,223
Customer 2	2,102,621	7.13%	77,593
Customer 3	2,039,043	6.92%	30,109
Customer 4	467,227	1.59%	51,973
Customer 5	418,059	1.42%	18,169
Total	9,456,189	32.09%	196,067

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". For details of the transfer of receivables, please refer to Note VIII.2.

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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

	2014	2013
Within 1 year	1,592,615	1,420,081
1 to 2 years	317,980	199,854
2 to 3 years	159,854	61,510
Over 3 years	89,228	47,718
	2,159,677	1,729,163

Other receivables analysed by nature as follows:

	2014	2013
Staff loans	321,500	343,456
Transactions with third parties	1,446,721	821,253
Others	391,456	564,454
	2,159,677	1,729,163

Top 5 accounts of other receivables as at 31 December 2014 were as follows:

Due from	Closing balance	As a percentage of total amounts of other receivables	Nature
Third-party entity 1	696,351	32.24%	Transactions with third parties
Third-party entity 2	200,000	9.26%	Others
Third-party entity 3	177,151	8.20%	Transactions with third parties
Third-party entity 4	32,660	1.51%	Transactions with third parties
Third-party entity 5	18,203	0.84%	Transactions with third parties
Total	1,124,365	52.05%	

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

5. Other receivables (continued)

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

6. Prepayments

Aging analysis of prepayments was as follows:

	2014		2013	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	682,778	100%	751,405	100%

Top 5 accounts of prepayments as at 31 December 2014 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	39,890	5.84%
Supplier 2	29,807	4.37%
Supplier 3	25,317	3.71%
Supplier 4	20,378	2.98%
Supplier 5	20,028	2.93%
Total	135,420	19.83%

7. Inventories

	2014			2013		
	Book balance	Provision For impairment	Carrying value	Book balance	Provision For impairment	Carrying value
Raw materials	3,024,252	423,227	2,601,025	3,794,947	475,135	3,319,812
Materials under sub-contract processing	302,833	14,602	288,231	159,844	7,603	152,241
Work-in-progress	1,340,404	71,860	1,268,544	943,734	46,673	897,061
Finished goods	4,352,821	321,735	4,031,086	2,940,432	376,657	2,563,775
Dispatch of goods	12,555,690	1,152,278	11,403,412	6,120,524	619,061	5,501,463
	21,576,000	1,983,702	19,592,298	13,959,481	1,525,129	12,434,352

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

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

8. Amount due from/to customers for contract works

	2014	2013
Amount due from customers for contract works	**11,033,468**	12,137,144
Amount due to customers for contract works	**(3,825,106)**	(3,682,564)
	7,208,362	8,454,580
Contract costs incurred plus recognized profits (losses) to date	**64,203,987**	41,905,232
Less: estimated loss	**340,199**	105,908
Progress billings	**56,655,426**	33,344,744
	7,208,362	8,454,580

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

9. Available-for-sale financial assets

	2014			2013		
	Book value	**Impairment provision**	**Carrying amount**	Book value	Impairment provision	Carrying amount
Available-for-sale equity instruments						
At fair value	**319,470**	**–**	**319,470**	364,479	–	364,479
At cost	**1,420,194**	**–**	**1,420,194**	1,265,792	–	1,265,792
	1,739,664	**–**	**1,739,664**	1,630,271	–	1,630,271

Available-for-sale financial assets at fair value:

	2014 Available-for-sale equity instruments	2013 Available-for-sale equity instruments
Equity instrument cost	**147,608**	164,047
Fair value	**319,470**	364,479
Accumulated fair value change included in other comprehensive income	**171,862**	200,432

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

9. Available-for-sale financial assets (continued)

Available-for-sale financial assets at cost:

	Book balance				Shareholding percentage	Cash dividend for the year
	Opening Balance	Increase during the year	Decrease during the year	Closing balance	(%)	
航天科技投資控股有限公司	201,734	—	—	201,734	5%	—
中國教育出版傳媒股份有限公司	—	196,000	—	196,000	0.985%	—
Others	1,064,058	24,139	(65,737)	1,022,460		5,593
	1,265,792	220,139	(65,737)	1,420,194		5,593

10. Long-term receivables

	2014	2013
Installment payments for the provision of system construction projects telecommunication	345,916	449,713
Less: Bad debt provision for long-term receivables	79,415	82,951
	266,501	366,762

The discount rates adopted for long-term receivables ranged from 6.16% to 17.56%.

Transfer of long-term 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". For details of the transfer of long-term receivables, please refer to Note VIII.2.

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

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

11. Long-term equity investments

		2014	2013
Equity method			
Jointly-controlled entities	(1)	67,607	66,891
Associates	(2)	393,709	411,146
		461,316	478,037

2014

(1) Jointly-controlled entities

	Balance as at the beginning of the year	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
普興移動通訊設備有限公司*	46,005	–	–	4,480	–	–	–	–	50,485	–
江蘇中興微通信息科技有限公司	9,000	–	–	(3,764)	–	–	–	–	5,236	–
Pengzhong Xingsheng	9,631	–	–	–	–	–	–	–	9,631	–
	66,891	–	–	716	–	–	–	–	67,607	–

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

11. Long-term equity investments (continued)

2014 (continued)

(2) Associates

		Movements during the year								
	Balance as at the beginning of the year	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興（杭州）科技有限公司	19,501	–	–	511	–	–	–	–	20,012	–
上海中興群力信息科技有限公司	24,851	–	–	(2,424)	–	–	–	–	22,427	–
ZTE Energy Co., Ltd	315,822	–	–	(50,116)	–	–	–	–	265,706	–
ZTE Software Technology (Nanchang) Company Limited	973	–	–	(973)	–	–	–	–	–	–
Nanjing Piaoxun Network Technology Company Limited	62	–	–	(37)	–	–	–	–	25	–
上海歡流傳媒有限公司	3,222	–	–	5	–	–	–	–	3,227	–
Shenzhen Yuanxing Technology Co., Ltd.	2,753	–	(2,753)	–	–	–	–	–	–	–
Telecom Innovations	10,077	–	–	–	157	–	–	–	10,234	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,795	–	–	1,221	–	–	–	–	7,016	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	–	4,764	–
興天通訊技術（天津）有限公司	6,813	–	–	10,831	–	–	–	–	17,644	–
南京皓信達訊網絡科技有限公司	3,702	–	–	(497)	–	–	–	–	3,205	–
中興九城網絡科技無錫有限公司	3,134	–	–	(4,654)	–	3,434	–	–	1,914	–
寧波中興興通供應鏈有限公司	4,000	–	–	97	–	–	–	–	4,097	–
寧波中興雲祥科技有限公司	3,200	12,800	–	(484)	–	–	–	–	15,516	–
上海中興思秸通訊有限公司	–	17,304	–	(3,515)	–	–	–	–	13,789	–
江蘇中興華易科技發展有限公司	–	5,380	–	(3,724)	–	–	–	–	1,656	–
	411,146	35,484	(2,753)	(53,759)	157	3,434	–	–	393,709	–

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

11. Long-term equity investments (continued)

2013

(1) Jointly-controlled entities

		Movements during the year								
	Balance as at the beginning of the year	Increase of investment	Decrease of investment	Investment gains/ losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
普興移動通訊設備有限公司*	44,559	–	–	1,446	–	–	–	–	46,005	–
江蘇中興微通信息科技有限公司	–	9,000	–	–	–	–	–	–	9,000	–
Pengzhong Xingsheng	–	9,631	–	–	–	–	–	–	9,631	–
	46,814	18,631	–	1,446	–	–	–	–	66,891	–

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

11. Long-term equity investments (continued)

2013 (continued)

(2) Associates

		Movements during the year								
	Balance as at the beginning of the year	Increase of investment	Decrease of investment	Investment gains/ losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
Wuxi Kaier Technology Company Limited	21,374	–	(22,460)	1,086	–	–	–	–	–	–
北京中鼎盛安科技有限公司	626	–	–	(626)	–	–	–	–	–	–
思卓中興（杭州）科技有限公司	19,455	–	–	46	–	–	–	–	19,501	–
上海中興群力信息科技有限公司	12,152	–	–	12,699	–	–	–	–	24,851	–
ZTE Energy Co., Ltd	302,793	–	–	22,490	–	–	(9,461)	–	315,822	–
ZTE Software Technology (Nanchang) Company Limited	836	–	–	137	–	–	–	–	973	–
Nanjing Piaoxun Network Technology Company Limited	62	–	–	–	–	–	–	–	62	–
上海歡流傳媒有限公司	1,566	1,650	–	6	–	–	–	–	3,222	–
Shenzhen Yuanxing Technology Co., Ltd.	4,116	–	–	(1,363)	–	–	–	–	2,753	–
Telecom Innovations	4,322	–	–	–	5,755	–	–	–	10,077	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,548	–	–	247	–	–	–	–	5,795	–
北京億科三友科技發展有限公司	5,932	–	–	(1,168)	–	–	–	–	4,764	–
Wuxi Hongtu Micro-electronic Technology Co., Ltd	21,826	–	(21,062)	(764)	–	–	–	–	–	–
興天通訊技術（天津）有限公司	5,869	–	–	944	–	–	–	–	6,813	–
南京皓信達訊網絡科技有限公司	–	4,200	–	(498)	–	–	–	–	3,702	–
中興九城網絡科技無錫有限公司	–	3,350	–	(216)	–	–	–	–	3,134	–
寧波中興興通供應鏈有限公司	–	4,000	–	–	–	–	–	–	4,000	–
寧波中興雲祥科技有限公司	–	3,200	–	–	–	–	–	–	3,200	–
	408,954	16,400	(43,522)	33,020	5,755	–	(9,461)	–	411,146	–

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

12. Investment Properties

Fair value measurement

2014

	Buildings RMB'000
Opening balance	**1,855,246**
Acquisition	**18,913**
Fair value change (Note 43)	**130,306**
Closing balance	**2,004,465**

2013

	Buildings RMB'000
Opening balance	1,686,158
Transfer from construction in progress (Note 14)	130,384
Fair value change (Note 43)	38,704
Closing balance	1,855,246

During the year, the investment properties of the Group leased buildings to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, a related party, and other non-related parties by way of operating lease.

As at 31 December 2014, investment properties with a carrying value of RMB1,420,685,000 (31 December2013: RMB1,323,370,000) had yet to obtain title registration certificates.

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

13. Fixed Assets

2014

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	5,575,209	60,600	3,624,951	2,374,673	312,797	246,902	12,195,132
Acquisitions	183,082	—	392,959	453,291	21,708	26,082	1,077,122
Transfer from construction-in-progress	—	—	187	5,087	—	175	5,449
Disposal or retirement	(43,747)	—	(335,864)	(172,051)	(30,986)	(42,730)	(625,378)
Exchange rate adjustments	(24,461)	(6,604)	(14,232)	(19,479)	(1,836)	(8,249)	(74,861)
Closing balance	5,690,083	53,996	3,668,001	2,641,521	301,683	222,180	12,577,464
Accumulated depreciation							
Opening balance	756,755	—	2,415,467	1,270,026	165,272	136,078	4,743,598
Provision	179,293	—	513,027	200,180	29,923	32,490	954,913
Disposed or retirement	(10,474)	—	(281,729)	(98,541)	(23,822)	(18,518)	(433,084)
Exchange rate adjustments	(19,236)	—	1,170	(15,346)	(1,218)	(6,471)	(41,101)
Closing balance	906,338	—	2,647,935	1,356,319	170,155	143,579	5,224,326
Provision for impairment							
Opening balance	—	—	—	2,058	—	—	2,058
Provision	—	—	2,677	—	—	83	2,760
Disposal or retirement	—	—	—	—	—	—	—
Exchange rate adjustments	—	—	—	34	—	(6)	28
Closing balance	—	—	2,677	2,092	—	77	4,846
Net book value							
At the end of the year	4,783,745	53,996	1,017,389	1,283,110	131,528	78,524	7,348,292
At the beginning of the year	4,818,454	60,600	1,209,484	1,102,589	147,525	110,824	7,449,476

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

13. Fixed Assets (continued)

2013

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	4,729,684	71,672	3,633,073	2,351,935	348,045	226,289	11,360,698
Acquisitions	60,449	—	251,197	147,390	14,770	41,161	514,967
Transfer from construction-in-progress	955,158	—	—	35,622	—	—	990,780
Disposal or retirement	(130,224)	—	(241,368)	(145,460)	(46,356)	(9,781)	(573,189)
Exchange rate adjustments	(39,858)	(11,072)	(17,951)	(14,814)	(3,662)	(10,767)	(98,124)
Closing balance	5,575,209	60,600	3,624,951	2,374,673	312,797	246,902	12,195,132
Accumulated depreciation							
Opening balance	660,464	—	2,098,494	1,221,680	166,988	114,389	4,262,015
Provision	154,531	—	551,100	170,231	35,747	32,733	944,342
Disposal or retirement	(29,482)	—	(223,298)	(114,546)	(35,067)	(5,506)	(407,899)
Exchange rate adjustments	(28,758)	—	(10,829)	(7,339)	(2,396)	(5,538)	(54,860)
Closing balance	756,755	—	2,415,467	1,270,026	165,272	136,078	4,743,598
Provision for impairment							
Opening balance	—	—	—	2,059	—	—	2,059
Provision	—	—	—	—	—	—	—
Disposal or retirement	—	—	—	—	—	—	—
Exchange rate adjustments	—	—	—	(1)	—	—	(1)
Closing balance	—	—	—	2,058	—	—	2,058
Net book value							
At the end of the year	4,818,454	60,600	1,209,484	1,102,589	147,525	110,824	7,449,476
At the beginning of the year	4,069,220	71,672	1,534,579	1,128,196	181,057	111,900	7,096,624

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

13. Fixed Assets (continued)

2013 (continued)

As at 31 December 2014, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an, Anhui and Hengyang of Hunan in China with a net book value of approximately RMB3,616,184,000 (31 December 2013: RMB3,687,123,000).

As at 31 December 2014, there were no retired fixed asset or idle fixed assets pending disposal (31 December 2013: Nil).

14. Construction in progress

Changes in significant construction in progress during 2014 as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to Investment properties during the year	Closing balance	Source of funds
Staff quarters	Nil	5,556	599	—	—	6,155	Internal funds
Sanya R&D Base Project	Nil	6,371	218	—	—	6,589	Internal funds
Equipment installation	Nil	35,372	—	5,449	—	29,923	Internal funds
Xi'an District 2 Phase 1	Nil	93,069	2,291	—	—	95,360	Internal funds
Heyuan R&D training Center Phase I	Nil	13,852	22,026	—	—	35,878	Internal funds
Nanjing District 3 Phase I	Nil	643	45	—	—	688	Internal funds
Nanjing staff quarters Phase II	Nil	4,173	8,073	—	—	12,246	Internal funds
Zhongxing ICT Qinhuangdao Northern Base infrastructure	Nil	—	5,609	—	—	5,609	Internal funds
IDC data centre engine room	Nil	—	25,739	—	—	25,739	Internal funds
Nanjing Internet of Things office	Nil	829	14,232	—	—	15,061	Internal funds
Others	Nil	17,558	12,057	—	—	29,615	Internal funds
Total		177,423	90,889	5,449		262,863	

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

14. Construction in progress (continued)

Changes in major constructions in progress in 2013 are as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to Investment properties during the year	Closing balance	Source of funds
Staff quarters	Nil	32,946	5,215	32,605	—	5,556	Internal funds
Sanya R&D Base Project	Nil	3,603	2,768	—	—	6,371	Internal funds
Equipment installation	Nil	38,389	—	3,017	—	35,372	Internal funds
Xi'an District 2 Phase 1	Nil	683,394	306,675	897,000	—	93,069	Internal funds
Xi'an Technology Park Site A10	Nil	8,995	63,414	—	72,409	—	Internal funds
Technology Park C3 R&D Centre	Nil	15,861	42,114	—	57,975	—	Internal funds
Heyuan R&D training Center Phase I	Nil	9,459	4,393	—	—	13,852	Internal funds
Industrial Park North Phase II	Nil	94	—	—	—	94	Internal funds
Nanjing District 3 Phase I	Nil	—	643	—	—	643	Internal funds
Xi'an District 2 Phase II	Nil	—	194	—	—	194	Internal funds
Nanjing District 2 Phase II	Nil	—	161	—	—	161	Internal funds
Nanjing staff quarters Phase II	Nil	—	4,173	—	—	4,173	Internal funds
Other projects	Nil	31,646	44,450	58,158	—	17,938	Internal funds
Total		824,387	474,200	990,780	130,384	177,423	

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

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

15. Intangible assets

2014

	Software	Technology know-how	Land use right	Franchise	Total
Cost					
Opening balance	464,168	6,605	1,188,778	332,583	1,992,134
Acquisition	149,658	1,650	45,558	76,439	273,305
Disposal or retirement	(128,834)	—	(4,091)	—	(132,925)
Closing balance	484,992	8,255	1,230,245	409,022	2,132,514
Accumulated amortization					
Opening balance	326,556	1,768	94,786	325,947	749,057
Provision	70,760	1,101	23,050	14,401	109,312
Disposal or retirement	(96,273)	—	(599)	—	(96,872)
Closing balance	301,043	2.869	117,237	340,348	761,497
Provision for impairment					
Opening balance	—	—	6,322	—	6,322
Provision	—	—	—	—	—
Disposal or retirement	—	—	—	—	—
Closing balance	—	—	6,322	—	6,322
Book value					
At the end of the year	183,949	5,386	1,106,686	68,674	1,364,695
At the beginning of the year	137,612	4,837	1,087,670	6,636	1,236,755

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

15. Intangible assets (continued)

2013

	Software	Technology know-how	Land use right	Franchise	Total
Cost					
Opening balance	438,971	10,689	990,174	222,905	1,662,739
Acquisition	148,863	1,906	209,671	109,678	470,118
Disposal or retirement	(123,666)	(5,990)	(11,067)	—	(140,723)
Closing balance	464,168	6,605	1,188,778	332,583	1,992,134
Accumulated amortization					
Opening balance	312,928	4,831	74,824	176,796	569,379
Provision	60,270	1,250	21,138	149,151	231,809
Disposal or retirement	(46,642)	(4,313)	(1,176)	—	(52,131)
Closing balance	326,556	1,768	94,786	325,947	749,057
Provision for impairment					
Opening balance	—	—	6,322	—	6,322
Provision	—	—	—	—	—
Disposal or retirement	—	—	—	—	—
Closing balance	—	—	6,322	—	6,322
Book value					
At the end of the year	137,612	4,837	1,087,670	6,636	1,236,755
At the beginning of the year	126,043	5,858	909,028	46,109	1,087,038

At 31 December 2014, intangible assets with a book value of RMB79,963,000 (31 December 2013: RMB23,650,000) were subject to ownership restriction as they had been pledged as security for borrowings.

As at 31 December 2014, 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 RMB565,604,000 (31 December 2013: RMB647,083,000).

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

16. Development expenses

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	**289,356**	**139,395**	**(123,548)**	**305,203**
System Products	**2,642,792**	**1,152,755**	**(617,245)**	**3,178,302**
	2,932,148	**1,292,150**	**(740,793)**	**3,483,505**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Handsets	291,077	96,989	(98,710)	289,356
System Products	2,155,857	934,039	(447,104)	2,642,792
	2,446,934	1,031,028	(545,814)	2,932,148

The Group adopts the timing of the product development project listing as the starting point for capitalisation. All research and development projects were under normal implementation according to the research and development milestone schedules.

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

17. Deferred tax assets/liabilities

	2014		2013	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealized profits arising on consolidation	**572,329**	**126,540**	422,510	117,100
Provision for impairment in inventory	**831,424**	**123,081**	906,067	131,522
Foreseeable contract losses	**204,058**	**30,609**	121,546	18,232
Amortization of deferred development costs	**1,028,752**	**130,897**	689,764	87,447
Provision for warranties and returned goods	**626,318**	**98,325**	466,901	66,064
Provision for retirement benefits	**115,450**	**17,348**	95,806	14,370
Deductible tax losses	**1,792,443**	**423,283**	2,925,991	591,006
Accruals	**1,082,895**	**153,361**	1,153,143	166,264
Overseas taxes pending deduction	**999,046**	**149,857**	1,043,813	156,572
Share option scheme expenses	**207,948**	**31,192**	29,707	4,456
	7,460,663	**1,284,493**	7,855,248	1,353,033

	2014		2013	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	**1,062,264**	**159,340**	932,669	139,900

Deductible tax losses of unrecognized deferred tax assets:

	2014	2013
Deductible tax losses	**7,723,300**	6,937,787

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

17. Deferred tax assets/liabilities (continued)

Deductible tax losses of unrecognized deferred tax assets expiring in the following periods:

	2014	2013
2014	**—**	20,328
2015	**—**	—
2016	**1,265,245**	1,265,245
After 2016	**6,458,055**	5,652,214
	7,723,300	6,937,787

The Group recognises deferred income tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible loss and tax allowance.

18. Provision for impairment of assets

2014

			Decrease during the year		
	Opening balance	**Provision for the Closing year**	**Write-back**	**Write-off**	**Closing balance**
Bad debt provision	**3,834,169**	**758,331**	**(82,809)**	**(113,100)**	**4,396,591**
Including: Trade receivables	**3,751,218**	**757,480**	**(82,809)**	**(108,713)**	**4,317,176**
Long-term receivables	**82,951**	**851**	**—**	**(4,387)**	**79,415**
Provision for impairment of inventories	**1,525,129**	**672,349**	**(148,399)**	**(65,377)**	**1,983,702**
Provision for impairment of Fixed assets	**2,058**	**2,760**	**—**	**28**	**4,846**
Provision for impairment of intangible assets	**6,322**	**—**	**—**	**—**	**6,322**
	5,367,678	**1,433,440**	**(231,208)**	**(178,449)**	**6,391,461**

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

18. Provision for impairment of assets (continued)

2013

	Opening balance	Provision for the Closing year	Decrease during the year: Write-back	Decrease during the year: Write-off	Closing balance
Bad debt provision	2,979,412	1,167,414	(57,632)	(255,025)	3,834,169
Including: Trade receivables	2,894,611	1,167,414	(56,082)	(254,725)	3,751,218
Long-term receivables	84,801	—	(1,550)	(300)	82,951
Provision for impairment of inventories	1,143,864	530,313	(50,609)	(98,439)	1,525,129
Provision for impairment of Fixed assets	2,059	—	—	(1)	2,058
Provision for impairment of intangible assets	6,322	—	—	—	6,322
	4,131,657	1,697,727	(108,241)	(353,465)	5,367,678

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

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

19. Other non-current assets

	2014	2013
Prepayments for project and equipment	**223,158**	217,270
Risk compensation fund	**3,744,472**	3,396,897
Others	**50,000**	198,430
	4,017,630	3,812,597

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

20. Short-term loans

		2014		2013		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**4,132,364**	**4,132,364**	4,715,950	4,715,950	
	USD	**1,016,544**	**6,303,083**	1,206,556	7,356,253	
	EUR	**—**	**—**	24,207	203,799	
	INR	**—**	**—**	2,076,400	204,933	
Bill discounted loans	RMB	**544,028**	**544,028**	102,000	102,000	Note 1
Pledged loans	USD	**3,000**	**18,602**	1,000	6,097	Note 2
			10,998,077		12,589,032	

As at 31 December 2014, the annual interest rate of the above loans ranged from 1.44%–7.20% (31 December 2013: 1.54%–14.25%).

Note 1: Bill discounted loans were loans discounted by bank acceptance bills. For 2014, discounted bills amounting to RMB500 million were issued on an intra-Group basis.

Note 2: Pledged loans were loans secured by time deposits.

There were no due and outstanding loans at 31 December 2014 (31 December 2013: Nil).

21. Financial liabilities at fair value through current profit and loss

	2014	2013
Trading financial liability		
Derivative financial liability	**64,904**	61,659
Hedging instruments — current portion	**5,700**	6,120
	70,604	67,779

Derivative financial liability represents forward foreign exchange contract. For details please refer to Note V.2.

For details of hedging instruments, please refer to Note V.55.

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

22. Bills payable

	2014	2013
Bank acceptance bills	**4,774,931**	4,071,009
Commercial acceptance bills	**5,606,757**	4,427,012
	10,381,688	8,498,021

As at 31 December 2014, there was no due and outstanding bills payable (31 December 2013: Nil).

23. Trade payables

An aging analysis of the trade payables are as follows:

	2014	2013
0 to 6 months	**18,794,292**	15,853,456
7 to 12 months	**298,251**	144,334
1 to 2 years	**14,258**	181,730
2 to 3 years	**114,309**	258,957
Over 3 years	**23,290**	54,057
	19,244,400	16,492,534

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

As at 31 December 2014, there were no material trade payables aged over 1 year (31 December 2013: Nil).

24. Advances from customers

	2014	2013
Advanced payments for system project work	**2,596,703**	1,890,385
Advanced payments for terminals	**708,817**	885,981
	3,305,520	2,776,366

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

25. Salary and welfare payables

Salaries payable to employees

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	**2,408,669**	**12,860,737**	**(12,513,101)**	**2,756,305**
Retirement benefits (Defined deposit schemes)	**50,223**	**989,907**	**(993,995)**	**46,135**
Termination benefits	**3,114**	**4,523**	**(3,130)**	**4,507**
	2,462,006	**13,855,167**	**(13,510,226)**	**2,806,947**

2013

	Opening Balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	2,303,136	10,843,638	(10,738,105)	2,408,669
Retirement benefits (Defined deposit schemes)	40,572	935,347	(925,696)	50,223
Termination benefits	2,818	2,363	(2,067)	3,114
	2,346,526	11,781,348	(11,665,868)	2,462,006

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

25. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Short-term remuneration analysed as follows:

2014

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Salary, bonus and allowance	**1,501,579**	**11,486,888**	**(11,196,930)**	**1,791,537**
Staff welfare	**5,441**	**59,177**	**(59,953)**	**4,665**
Social insurance	**18,829**	**493,086**	**(493,784)**	**18,131**
Including: Medical Insurance	**17,265**	**446,596**	**(446,711)**	**17,150**
Work Injuries Insurance	**1,453**	**18,686**	**(19,731)**	**408**
Maternity Insurance	**111**	**27,804**	**(27,342)**	**573**
Housing funds	**44,472**	**330,724**	**(341,129)**	**34,067**
Labour union fund and employee education fund	**838,348**	**490,862**	**(421,305)**	**907,905**
	2,408,669	**12,860,737**	**(12,513,101)**	**2,756,305**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	1,437,224	9,451,234	(9,386,879)	1,501,579
Staff welfare	19,891	199,095	(213,545)	5,441
Social insurance	15,720	506,181	(503,072)	18,829
Including: Medical Insurance	15,250	454,543	(452,528)	17,265
Work Injuries Insurance	205	24,317	(23,069)	1,453
Maternity Insurance	265	27,321	(27,475)	111
Housing funds	27,182	383,967	(366,677)	44,472
Labour union fund and employee education fund	803,119	303,161	(267,932)	838,348
	2,303,136	10,843,638	(10,738,105)	2,408,669

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

25. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Defined contribution plans are analysed as follows:

2014

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Pension Insurance	**48,995**	**927,972**	**(932,004)**	**44,963**
Unemployment Insurance	**1,228**	**61,935**	**(61,991)**	**1,172**
	50,223	**989,907**	**(993,995)**	**46,135**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension Insurance	40,650	881,361	(873,016)	48,995
Unemployment Insurance	(78)	53,986	(52,680)	1,228
	40,572	935,347	(925,696)	50,223

Long-term staff remuneration payable

	2014 RMB'000	2013 RMB'000
Net liabilities under defined benefit plan	**115,450**	95,806

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the plan, an employee is entitled to retirement benefits ranging from 0% to 50% of his/her last salary at the retirement age.

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悅管理諮詢（深圳）有限公司 using the expected benefit accrual unit approach at 31 December 2014.

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

25. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Major actuarial assumptions applied as at the balance sheet date are as follows:

	2014
Discount rate %	4.00%
Expected salary increase %	5.50%

A quantitative sensitivity analysis of significant assumptions applied as at 31 December 2014 is set out as follows:

	Increase	Increase/ (decrease) in Obligations under defined benefit plan RMB'000	Decease	Increase/ (decrease) in Obligations under defined benefit plan RMB'000
Discount rate	0.25%	(4,019)	0.25%	4,197
Expected salary increase	1.00%	13,854	1.00%	(12,700)

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits.

Relevant plans recognised in the income statement are as follows:

	2014 RMB'000
Interest expenses	4,466
Charged to administrative expenses	4,466

Change in the present value of obligations under defined benefit plan:

	2014 RMB'000
1 January	95,806
Interest expenses	4,466
Pension paid	(1,421)
Benefit costs recognized in comprehensive income	16,599
31 December	115,450

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

25. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Present value of changes in obligations under defined benefit plans are as follows:

	Net liabilities under defined benefit plan
2014	
Opening balance	**95,806**
Net interest	**4,466**
Charged to other comprehensive income	
Actuary loss	**11,555**
Experience adjustments	**5,044**
Other changes	
Benefit paid	**(1,421)**
Closing balance	**115,450**

26. Tax payable

	2014	2013
Value-added tax	**(4,040,415)**	(2,393,454)
Business tax	**565,212**	434,616
Income tax	**489,141**	557,059
PRC tax	**363,422**	348,085
Overseas tax	**125,719**	208,974
Individual income tax	**89,430**	60,350
City maintenance and construction tax	**52,762**	54,272
Education surcharge	**43,069**	43,330
Other taxes	**10,521**	(8,032)
	(2,790,280)	(1,251,859)

27. Dividend payable

	2014	2013
Dividend payable to holders of restricted shares	**156**	152
Dividend payable to minority shareholders	**7,957**	34,811
	8,113	34,963

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

28. Other payables

	2014	2013
Accruals	**1,123,200**	686,700
Contributions to staff housing	**66,168**	66,168
Payables to external parties	**5,319,690**	6,788,985
Deposits	**29,972**	28,488
Factored interests payable	**71,233**	84,084
Payables to employees	**483,277**	426,883
Others	**438,430**	396,836
	7,531,970	8,478,144

29. Provisions

2014

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Outstanding litigation	**110,694**	**63,442**	**(13,221)**	**160,915**
Provision for returned handsets	**169,315**	**212,207**	**(114,713)**	**266,809**
Provision for warranties	**321,102**	**505,868**	**(513,303)**	**313,667**
	601,111	**781,517**	**(641,237)**	**741,391**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation	44,765	67,114	(1,185)	110,694
Provision for returned handsets	51,257	130,953	(12,895)	169,315
Provision for warranties	195,435	677,989	(552,322)	321,102
	291,457	876,056	(566,402)	601,111

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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

	2014	2013
Long-term loans due within one year	**43,072**	2,753,925
Bonds payable due within one year	**6,131,185**	—
	6,174,257	2,753,925

31. Long-term loans

		2014		2013		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**1,740,000**	**1,740,000**	1,782,000	1,782,000	
	USD	**200,000**	**1,240,100**	17,664	107,696	
Guaranteed loans	RMB	**1,500,000**	**1,500,000**	—	—	Note 1
	USD	**889,539**	**5,515,587**	447,109	2,725,977	Note 1
Secured loans	RMB	**44,000**	**44,000**	269,500	269,500	Note 2
Pledged loans	RMB	**—**	**—**	500,500	500,500	
			10,039,687		5,385,673	

Note 1 The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiary ZTE (H.K.) Limited.

Note 2 The secured loans was pledged by land use rights of 湖南中興網信科技有限公司 with a value of RMB79,963,000.

As at 31 December 2014, the annual interest rate for the aforesaid loans was 3.930%-6.765% (31 December 2013: 0%-6.654%).

32. Bonds payable

	2014	2013
Bonds payable	**—**	6,119,590

Balance of bonds payable as at 31 December 2014 is analysed as follows:

	Nominal value	Date of issue	Term of bond	Issue amount	Opening balance	Amortisation of interest discount/ premium for the year	Repayment during the year	Closing balance
Bonds payable	**6 billion**	**2012.6.13**	**3 years**	**5,965,212**	**6,119,590**	**263,595**	**(252,000)**	**6,131,185***

* The bonds will be due in 2015 and is shown as non-current liabilities due within 1 year for this year.

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

32. Bonds payable (continued)

Balance of bonds payable as at 31 December 2013 is analysed as follows:

	Nominal value	Date of issue	Term of bond	Issue amount	Opening balance	Amortisation of interest discount/premium for the year	Repayment during the year	Closing balance
Bonds payable	6 billion	2012.6.13	3 years	5,965,212	6,107,993	263,597	(252,000)	6,119,590

33. Other non-current liabilities

	2014	2013
Long-term financial guarantee contract	**3,689**	3,689
Factored interests payable	**204,435**	257,540
Hedging instruments — non-current portion	**881**	4,286
Deferred income relating to staff housing	**1,140,351**	1,164,994
	1,349,356	1,430,509

34. Share capital

2014

	Opening balance	**Increase/ decrease during the year**	**Closing balance**
Restricted shares			
Senior management shares	**7,226**	**(455)**	**6,771**
Total number of restricted shares	**7,226**	**(455)**	**6,771**
Unrestricted shares			
RMB Ordinary shares	**2,800,730**	**455**	**2,801,185**
Overseas listed foreign shares	**629,585**	**—**	**629,585**
Total number of unrestricted shares	**3,430,315**	**455**	**3,430,770**
Total number of shares	**3,437,541**	**—**	**3,437,541**

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

34. Share capital (continued)

2013

	Opening balance	Increase/ decrease during the year	Closing balance
Restricted shares			
Domestic natural person shares	2,537	(2,537)	—
Senior management shares	8,724	(1,498)	7,226
Total number of restricted shares	11,261	(4,035)	7,226
Unrestricted shares			
RMB Ordinary shares	2,799,232	1,498	2,800,730
Overseas listed foreign shares	629,585	—	629,585
Total number of unrestricted shares	3,428,817	1,498	3,430,315
Total number of shares	3,440,078	(2,537)	3,437,541

35. Capital reserves

2014

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium	**8,442,845**	**812**	**—**	**8,443,657**
Share-based payment (Note 1)	**22,856**	**178,241**	**—**	**201,097**
Capital investment by government	**80,000**	**—**	**—**	**80,000**
	8,545,701	**179,053**	**—**	**8,724,754**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,442,845	—	—	8,442,845
Share-based payment (Note 1)	—	29,707	(6,851)	22,856
Capital investment by government	80,000	—	—	80,000
	8,522,845	29,707	(6,851)	8,545,701

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

35. Capital reserves (continued)

2013 (continued)

Note 1 Total current expenses of equity-settled share-based payments for 2014 amounted to RMB178,241,000. Total current expenses of equity-settled share-based payments for 2013 amounted to RMB29,707,000. In September 2013, the Company repurchased 2,536,742 restrictive shares not qualifying for unlocking from 126 scheme participants and cancelled such shares in accordance with provisions of the Phase I Share Incentive Scheme, and a charge of RMB6,851,000 was made to the capital reserve.

36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2013	Increase/ decrease	31 December 2013	Increase/ decrease	**31 December 2014**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(45,891)	7,040	(38,851)	(16,599)	**(55,450)**
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	41,260	—	41,260	3,090	**44,350**
Change in fair value of available-for-sale financial assets	12,625	149,231	161,856	(40,800)	**121,056**
Effective portion of cash flow hedging instruments	(16,856)	5,784	(11,072)	3,965	**(7,107)**
Differences arising from foreign currency translation	(582,699)	(463,966)	(1,046,665)	(313,228)	**(1,359,893)**
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	—	792,769	—	**792,769**
	201,208	(301,911)	(100,703)	(363,572)	**(464,275)**

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

36. Other comprehensive income (continued)

Other comprehensive income on the income statement attributable to the parent company incurred during the current period:

2014

	Amount before taxation	Income tax	Amount after taxation
Other comprehensive income that cannot be subsequently reclassified to profit or loss			
Changes in net liabilities arising from the re-measurement of defined benefit plans	**(16,599)**	**–**	**(16,599)**
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	**3,090**	**–**	**3,090**
Other comprehensive income to be subsequently reclassified to profit or loss			
Change in fair value of available-for-sale financial assets	**(28,350)**	**–**	**(28,350)**
Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period	**(12,450)**	**–**	**(12,450)**
Effective portion of cash flow hedging instruments	**3,965**	**–**	**3,965**
Differences arising from foreign currency translation	**(313,228)**	**–**	**(313,228)**
	(363,572)	**–**	**(363,572)**

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

36. Other comprehensive income (continued)

2013

	Amount before taxation	Income tax	Amount after taxation
Other comprehensive income that cannot be subsequently reclassified to profit or loss			
Changes in net liabilities arising from the re-measurement of defined benefit plans	7,040	—	7,040
Other comprehensive income to be subsequently reclassified to profit or loss			
Change in fair value of available-for-sale financial assets	149,231	—	149,231
Effective portion of cash flow hedging instruments	5,784	—	5,784
Differences arising from foreign currency translation	(463,966)	—	(463,966)
	(301,911)	—	(301,911)

37. Surplus reserves

2014

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory surplus reserves	**1,613,195**	**155,817**	**—**	**1,769,012**

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,587,430	25,765	—	1,613,195

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

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

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

38. Retained profits

	2014	2013
Retained profits at the beginning of the year	**8,933,788**	7,705,022
Net profit attributable to shareholders of the parent	**2,633,571**	1,357,657
Less: Statutory surplus reserves	**(155,817)**	(25,765)
Proposed final dividend	**(687,508)**	(103,126)
Retained profits at the end of the year	**10,724,034**	8,933,788

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.

39. Operating revenue and costs

	2014		2013	
	Revenue	Cost	Revenue	Cost
Revenue	**81,045,164**	**55,608,415**	74,748,695	52,898,371
Other income	**426,111**	**151,689**	485,029	227,533
	81,471,275	**55,760,104**	75,233,724	53,125,904

Operating revenue is analysed as follows:

	2014	2013
Telecommunications systems contracts	**58,321,583**	53,169,672
Sales of goods	**23,117,090**	21,702,058
Rendering of services	**32,602**	361,994
	81,471,275	75,233,724

40. Taxes and surcharges

	2014	2013
Business tax	**703,703**	571,323
City maintenance and construction tax	**276,633**	244,370
Education surcharge	**221,401**	199,553
Others	**129,506**	64,286
	1,331,243	1,079,532

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

41. Selling and distribution costs

	2014	2013
Wages, welfare and bonuses	3,807,881	3,496,095
Consulting and services charges	2,103,079	2,956,711
Travelling expenses	790,830	539,561
Transportation and fuel charges	563,145	503,124
Office expenses	424,637	248,675
Advertising and promotion expenses	980,822	567,876
Rental fees	561,718	442,030
Communication expenses	104,620	116,350
Others	922,433	1,133,428
	10,259,165	10,003,850

42. Administrative expenses

	2014	2013
Wages, welfare and bonuses	819,935	881,901
Office expenses	102,580	100,555
Amortization and depreciation charges	286,495	274,294
Taxes	171,270	164,921
Rental fees	143,396	144,029
Travelling expenses	85,719	95,185
Others	422,050	541,382
	2,031,445	2,202,267

43. Profits from changes in fair values

	2014	2013
Financial assets/liabilities at fair value through profit or loss	17,976	165,306
Including: Derivative financial instruments	17,976	174,829
Investment properties at fair value	130,306	38,704
	148,282	204,010

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

44. Investment income

	2014	2013
Investment (loss)/gain from long-term equity investment under equity method	**(53,043)**	34,466
Investment gain from long-term equity investment under cost method	**32,176**	22,240
Investment gain/(loss) arising from the disposal of financial assets at fair value through profit or loss during the period of holding	**146,039**	(9,644)
Investment gain from the disposal of available-for-sale financial assets	**13,483**	667
Investment (loss)/gain from the disposal of equity interests	**(4,181)**	866,677
	134,474	914,406

45. Financial expenses

	2014	2013
Interest expenses	**1,561,674**	1,650,437
Less: Interest income	**433,604**	355,958
Loss on foreign currency exchange	**590,085**	864,721
Cash discounts and interest subsidy	**143,730**	89,943
Bank charges	**239,092**	211,160
	2,100,977	2,460,303

For 2014, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB177,290,000 (2013: RMB151,666,000).

46. Impairment Losses

	2014	2013
Bad debt provisions	**675,522**	1,109,782
Inventories provisions	**523,950**	479,704
Impairment losses on fixed assets	**2,760**	—
	1,202,232	1,589,486

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

47. Non-operating income/Non-operating expenses

Non-operating income

	2014	2013	Amount of recurrent gain/loss recognised for 2014
Refund of VAT on software products (Note 1)	**2,481,772**	2,305,836	—
Others (Note 2)	**1,305,871**	1,159,592	666,814
	3,787,643	3,465,428	666,814

Note 1 Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Note 2 Others include government grant, gains from contract penalties and other gains.

Non-operating expenses

	2014	2013	Amount of recurrent gain/loss recognised for 2014
Compensation	**236,953**	108,758	236,953
Loss arising from the disposal of non-current assets	**35,661**	18,066	35,661
Others	**37,135**	17,667	37,135
	309,749	144,491	309,749

48. Total profit

Supplementary information of the Group's expenses by nature as follows:

	2014	2013
Cost of goods and services	**48,363,247**	39,205,492
Staff remuneration	**12,661,267**	10,567,938
Depreciation and amortization	**1,825,796**	1,745,216
Loss arising from impairment of no-current assets	**2,760**	—
Rent	**705,114**	586,059
Financial Expenses	**2,100,977**	2,460,303

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

49. Income tax

	2014	2013
Current income tax	**722,512**	528,635
Deferred income tax	**87,980**	(134,428)
	810,492	394,207

Reconciliation between income tax and total profit was as follows:

	2014	2013
Total profit	**3,538,222**	1,827,843
Tax at statutory tax rate (Note 1)	**884,556**	456,961
Effect of different tax rates applicable to certain subsidiaries	**(260,192)**	(428,015)
Adjustment to current tax in previous periods	**66,171**	(51,790)
Profits and losses attributable to jointly-controlled entitles and associates	**13,164**	(8,708)
Income not subject to tax	**(165,899)**	(336,735)
Expenses not deductible for tax	**172,618**	120,598
Utilization of tax losses from previous years	**(57,029)**	(59,620)
Unrecognized tax losses	**157,103**	701,516
Tax charge at the Group's effective rate	**810,492**	394,207

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.

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.

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50. Earnings per share (continued)

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:

	2014	2013
Earnings		
Net profit attributable to ordinary shareholders of the Company for the year	**2,633,571**	1,357,657
Shares		
Weighted average number of ordinary shares of the Company	**3,437,541**	3,437,541
Diluting effect — weighted average number of ordinary shares		
Stock option	**2,543**	1,767
Adjusted weighted average number of ordinary shares of the Company	**3,440,084**	3,439,308

During the reporting period, stock options granted by the Company gave rise to potentially 2,543,000 dilutive ordinary shares.

51. Notes to major items in cash flow statement

	2014	2013
Cash received in connection with other operating activities:		
Interest income	**421,190**	341,563
Cash paid in connection with other operating activities:		
Selling and distribution costs	**5,994,584**	6,212,889
Administrative expenses and research and development costs	**1,583,202**	1,515,596

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

52. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2014	2013
Net profit	**2,727,730**	1,433,636
Add: Provision for impairment of assets	**1,202,232**	1,589,486
Depreciation of fixed assets	**954,913**	944,342
Amortisation of intangible assets and deferred development costs	**850,105**	777,623
Amortisation of long-term deferred assets	**20,778**	23,251
Loss on disposal of fixed assets, intangible assets and other long-term assets	**35,661**	18,066
Gain from changes in fair value	**(148,282)**	(204,010)
Financial expenses	**1,628,717**	2,063,087
Investment income	**(134,474)**	(914,406)
Decrease/(increase) in deferred tax assets	**68,540**	(134,428)
Increase in deferred tax liabilities	**19,440**	—
Increase in inventories	**(7,681,897)**	(1,681,392)
Decrease in operating receivables	**1,078,372**	5,912,039
Increase/(decrease) in operating payables	**2,161,107**	(7,724,630)
Cost of share-based payment	**178,241**	29,707
(Increase)/decrease in cash not immediately available for payments	**(448,548)**	442,207
Net cash flow from operating activities	**2,512,635**	2,574,578

(2) Change in cash and cash equivalents:

	2014	2013
Cash		
Including: Cash on hand	**16,314**	24,760
Bank deposit readily available	**17,213,826**	20,093,514
Cash and cash equivalents at end of year	**17,230,140**	20,118,274

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

53. Assets under restrictions on ownership or right of use

	2014	2013	
Cash	**741,306**	731,641	Note 1
Bills receivables	**44,028**	102,000	Note 2
Trade receivables	**—**	750,000	Note 3
Fixed assets	**—**	683,394	Note 4
Intangible assets	**79,963**	23,650	Note 5
	865,297	2,290,685	

Note 1: As at 31 December 2014, the Group's cash subject to ownership restriction amounted to RMB741,306,000 (31 December 2013: RMB731,641,000), including time deposits of RMB23,000,000 (31 December 2013: RMB23,000,000) pledged to secure bank borrowings, acceptance bill deposits of RMB63,030,000 (31 December 2013: RMB37,237,000), letter of credit deposits of RMB10,711,000 (31 December 2013: RMB11,209,000), deposit for guarantee letter of RMB99,891,000 (31 December 2013: RMB116,791,000), dues from the People's Bank of China of RMB376,188,000 (31 December 2013: 288,821,000) and risk compensation fund to be released within one year of RMB168,486,000 (31December 2013: RMB254,583,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a 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 2014, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,912,958,000 (31 December 2013: RMB3,651,480,000). Risk compensation fund to be released within one year amounting to RMB168,486,000 (31 December 2013: RMB254,583,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB3,744,472,000 (31 December 2013: RMB3,396,897,000) was accounted for as other non-current assets.

Note 2: As at 31 December 2014, bank acceptance bills with a carrying value of RMB44,028,000 (31 December 2013: RMB102,000,000) were pledged to secure bank borrowing.

Note 3: As at 31 December 2014, no trade receivables (31 December 2013: RMB750,000,000) were pledged to secure bank borrowings.

Note 4: As at 31 December 2014, no fixed assets (31 December 2013: RMB683,394,000) were pledged to secure bank borrowings.

Note 5: As at 31 December 2014, intangible assets with a carrying value of RMB79,963,000 (31 December 2013: RMB23,650,000) were pledged to secure bank borrowings.

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

54. Monetary items in foreign currencies

		2014			2013		
		Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash	USD	**1,433**	**6.2005**	**8,884**	2,812	6.0969	17,144
	SAR	**45**	**1.6526**	**74**	84	1.6258	136
	DZD	**4,753**	**0.0709**	**337**	4,510	0.0785	354
	INR	**410**	**0.0975**	**40**	486	0.0987	48
	THB	**361**	**0.1886**	**68**	501	0.1858	93
	PLN	**129**	**1.7544**	**227**	783	2.0248	1,586
	KZT	**3,663**	**0.0344**	**126**	14,375	0.0400	575
	EGP	**93**	**0.8697**	**81**	46	0.8820	41
Bank deposit	USD	**579,892**	**6.2005**	**3,595,620**	722,971	6.0969	4,407,879
	HKD	**109,384**	**0.7984**	**87,332**	230,094	0.7862	180,900
	BRL	**27,724**	**2.3133**	**64,134**	58,772	2.5962	152,583
	PKR	**1,551,826**	**0.0619**	**96,058**	1,613,948	0.0580	93,609
	EGP	**193,939**	**0.8697**	**168,669**	90,680	0.8820	79,980
	IDR	**130,878,000**	**0.0005**	**65,439**	99,816,000	0.0005	49,908
	EUR	**206,682**	**7.5342**	**1,557,184**	246,778	8.4189	2,077,603
	DZD	**446,417**	**0.0709**	**31,651**	708,841	0.0785	55,644
	MYR	**43,244**	**1.7726**	**76,654**	18,365	1.8470	33,921
	ETB	**168,210**	**0.3095**	**52,061**	191,776	0.3209	61,541
	CAD	**14,887**	**5.2755**	**78,536**	70,698	5.7259	404,812
	GBP	**5,229**	**9.6475**	**50,447**	5,038	10.0556	50,662
	THB	**814,316**	**0.1886**	**153,580**	3,005,651	0.1858	558,450
	RUB	**331,339**	**0.1105**	**36,612**	597,306	0.1852	110,621
	JPY	**3,943,141**	**0.0519**	**204,649**	6,717,336	0.0578	388,262
	VEF	**15,046**	**0.9842**	**14,808**	112,263	0.9691	108,794
	COP	**14,365,769**	**0.0026**	**37,351**	48,595,000	0.0032	155,504
	NPR	**2,886,976**	**0.0615**	**177,549**	2,305,040	0.0623	143,604
	CLP	**1,510,980**	**0.0102**	**15,412**	743,362	0.0116	8,623
Other cash	USD	**31,176**	**6.2005**	**193,304**	55,888	6.0969	340,744
Trade receivables	USD	**1,498,159**	**6.2005**	**9,289,333**	1,246,533	6.0969	7,599,987
	EUR	**229,447**	**7.5342**	**1,728,697**	221,689	8.4189	1,866,381
	BRL	**59,670**	**2.3133**	**138,034**	77,856	2.5962	202,130
	THB	**165,933**	**0.1886**	**31,295**	3,321,066	0.1858	617,054
	INR	**22,795,426**	**0.0975**	**2,222,554**	16,558,956	0.0987	1,634,369
	Sub-total			**20,176,800**			21,403,542

The Group's principal places of business overseas include the United States, Brazil and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their book currencies.

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

55. Hedging

	2014	2013
	Liabilities	Liabilities
Interest rate swap agreement	**6,581**	10,406
Non-current portion	**881**	4,286
Current portion	**5,700**	6,120

Periods during which the Group's estimated cash flow under hedge as at 31 December 2014 is expected to occur:

	2014		2013	
	Cash outflows	**Net cash flows**	Cash outflows	Net cash flows
Within 1 year	**(2,282)**	**(2,282)**	(1,811)	(1,811)
1 to 3 years	**(4,273)**	**(4,273)**	(8,659)	(8,659)

As at 31 December 2014, the estimated effect of the Group's expected cash flow under hedging on profit and loss for the following period is as follows:

	2014	2013
Within 1 year	**(2,282)**	(1,811)
1 to 3 years	**(4,273)**	(8,659)

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and the net gain of RMB3,965,000 was included in other comprehensive income as follows:

	2014	2013
Net fair value gain included in other comprehensive income	**3,965**	5,784
Net gain cash flow hedging	**3,965**	(5,784)

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VI. CHANGES IN THE SCOPE OF CONSOLIDATION

New subsidiaries established in 2014 included: tier-one subsidiaries 中興新能源汽車有限責任公司, 西安中興通訊終端科技有限公司, 中興健康科技有限公司, 深圳微品致遠信息科技有限公司 and 深圳市中興智谷科技有限公司; tier-two subsidiaries 河南中興網信科技有限公司, ZTE HK CORPORATION DOMINICAN REPUBLIC, SRL, 嘉興市興和創業投資管理有限公司, 淮安中興軟件技術有限公司, WEIXIANTONG INTERNATIONAL ANGOLA, LIMITADA, ZTE XIN (MACAO) LIMITED, 重慶中興網信科技有限公司, 江蘇中興豐創科技有限公司, ZTE CONGO S.A.R.L, 中興網信國際有限公司, 廣州中興軟創科技有限公司, ZTE SOFT Deutschland Gmbh, 北京中興軟創軟件有限公司 and 山西中興網信科技有限公司; tier-three subsidiaries 嘉興市興和股權投資合夥企業, 河南中興智慧產業發展有限公司 and ZTE Managed Services Southern Europe SL; and a tier-four subsidiary ZTE SERVICE ROMANIA SRL.

VII. INTERESTS IN OTHER ENTITIES

1 Interests in subsidiaries

Particulars of the subsidiaries of the Company are as below:

Type of subsidiary	Place of registration/ principal place of business	Business nature	Registered capital	Shareholding percentage (%) Direct	Shareholding percentage (%) Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	—
ZTE (H.K) Limited	Hong Kong	Information technology	HK995 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB50 million	90%	10%
ZTE Kangxun Telecom Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB1,755 million	100%	—
ZTEsoft Technology Company Limited	Nanjing	Manufacturing	RMB300 million	80.1%	—
Shenzhen ZTE Mobile Telecom Co., Ltd	Shenzhen	Telecommunications and related equipment manufacturing	RMB79.166 million	90%	—
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Telecommunications services	RMB10 million	90%	—
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	—
ZTE (Hangzhou) Company Limited	Hangzhou	Telecommunications and related equipment manufacturing	RMB100 million	100%	—
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB 60 million	90%	—

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VII. INTERESTS IN OTHER ENTITIES (continued)

2 Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding % Direct	Indirect	Accounting method
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	–	Equity method
普興移動通訊設備有限公司	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	–	Equity method
江蘇中興微通信息科技有限公司	PRC	R&D, sales and technical services for communications products	RMB18,000,000	50%	–	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones	USD3,160,000	50%	–	Equity method
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	–	Equity method
北京中鼎盛安科技有限公司	PRC	Computer application services	RMB4,000,000	49%	–	Equity method
思卓中興(杭州)科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	–	Equity method
上海中興群力信息科技有限公司	PRC	Manufacturing of computers and related equipment	RMB5,000,000	40%	–	Equity method
ZTE Energy Co., Ltd.	PRC	Energy	RMB1,290,000,000	23.26%	–	Equity method
ZTE Software Technology (Nanchang) Company Limited	PRC	Computer application services	RMB15,000,000	30%	–	Equity method
Nanjing Piaoxun Network Technology Company Limited	PRC	Computer application services	RMB870,000	20%	–	Equity method
上海歡流傳媒有限公司	PRC	Advertising, Internet, communications and import and export	RMB5,000,000	33%	–	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD2,875,347.3	27.70%	–	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	PRC	Hotel management service	RMB30,000,000	18%	–	Equity method
北京億科三友科技發展有限公司	PRC	Computer application services	RMB34,221,649	20%	–	Equity method
興天通訊技術(天津)有限公司	PRC	Communications business and related services	RMB20,000,000	30%	–	Equity method
南京皓信達訊網絡科技有限公司	PRC	Network software development and sales and related technical services	USD2,000,000	25%	–	Equity method
中興九城網絡科技無錫有限公司	PRC	Computer application services	RMB10,000,000	30.15%	–	Equity method
寧波中興興通供應鏈有限公司	PRC	End to end supply chain integration services including procurement etc	RMB20,000,000	20%	–	Equity method
寧波中興雲祥科技有限公司	PRC	Software R&D and supply chain management	RMB80,000,000	20%	–	Equity method
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	–	Equity method
江蘇中興華易科技發展有限公司	PRC	Computer hardware, electronic equipment and development of network technologies	RMB30,000,000	35%	–	Equity method

During the year, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures and associates which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2 Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	2014	2013
Joint ventures		
Aggregate carrying value of investments	**67,607**	66,891
Aggregate amounts of the following attributable to shareholdings:		
Net profit	**716**	1,446
Other comprehensive income	**—**	—
Total comprehensive income	**716**	1,446
Associates		
Aggregate carrying value of investments	**393,709**	411,146
Aggregate amounts of the following attributable to shareholdings:		
Net profit/(loss)	**(53,759)**	33,020
Other comprehensive income	**3,434**	—
Total comprehensive income	**(50,325)**	33,020

As 北京中鼎盛安科技有限公司 ("Zhongding") and ZTE Software Technology (Nanchang) Company Limited ("ZTE Nanchang") did not have the obligation to bear additional losses, therefore the net losses of Zhongding and ZTE Nanchang were recognised to the extent of the book value of such long-term equity investments and other long-term equity effectively constituting net investments in Zhongding and ZTE Nanchang. The Group's unrecognised investment losses for the year and on an accumulated basis amounted to RMB3,163,000 (2013: RMB62,000) and RMB3,225,000 (2013: RMB62,000).

For 2014, there were no contingent liabilities associated with the investments in joint ventures and associates (2013: Nil).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

2014

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	18,115,874	—	18,115,874
Financial assets at fair value through current profit and loss	240,973	—	—	240,973
Available-for-sale financial assets	—	—	1,739,664	1,739,664
Bills receivable	—	2,086,771	—	2,086,771
Trade receivables and long-term receivables	—	25,419,464	—	25,419,464
Factored trade receivables and factored long-term receivables	—	4,862,683	—	4,862,683
Other receivables (excluding dividends receivable)	—	2,159,677	—	2,159,677
Other non-current assets	—	3,794,472	—	3,794,472
	240,973	56,438,941	1,739,664	58,419,578

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

2014 (continued)

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Financial liabilities at fair value through current profit and loss	64,904	—	5,700	70,604
Bank loans	—	21,080,836	—	21,080,836
Bills payables	—	10,381,688	—	10,381,688
Trade payables	—	19,244,400	—	19,244,400
Bank advances on factored trade receivables and long-term trade receivables	—	4,877,410	—	4,877,410
Other payables (excluding accruals and staff housing fund contributions)	—	6,342,602	—	6,342,602
Bonds payable	—	6,131,185	—	6,131,185
Other non-current liabilities	—	208,124	881	209,005
	64,904	68,266,245	6,581	68,337,730

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

2013

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	20,903,035	—	20,903,035
Financial assets at fair value through current profit and loss	217,454	—	—	217,454
Available-for-sale financial assets	—	—	1,630,271	1,630,271
Bills receivable	—	3,500,671	—	3,500,671
Trade receivables and long-term receivables	—	21,760,019	—	21,760,019
Factored trade receivables and factored long-term receivables	—	5,650,326	—	5,650,326
Other receivables (excluding dividends receivable)	—	1,666,645	—	1,666,645
Other non-current assets	—	3,595,327	—	3,595,327
	217,454	57,076,023	1,630,271	58,923,748

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

2013 (continued)

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Financial liabilities at fair value through current profit and loss	61,659	—	6,120	67,779
Bank loans	—	20,728,630	—	20,728,630
Bills payable	—	8,498,021	—	8,498,021
Trade payables	—	16,492,534	—	16,492,534
Bank advances on factored trade receivables and long-term trade receivables	—	5,688,899	—	5,688,899
Other payables (excluding accruals and staff housing fund contributions)	—	7,791,444	—	7,791,444
Bonds payable	—	6,119,590	—	6,119,590
Other non-current liabilities	—	261,229	4,286	265,515
	61,659	65,580,347	10,406	65,652,412

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

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 not substantially all risks and rewards relating to bills receivable with a carrying amount of RMB44,028,000 (31 December 2013: RMB102,000,000) had been transferred upon discounting and therefore such bills receivable did not qualify for derecognition of financial assets.

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 2014, trade receivables that have been transferred but not settled by the debtors amounted to RMB2,915,814,000 (31 December 2013: RMB2,790,279,000).

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 2014, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB9,547,043,000 (31 December 2013: RMB13,222,149,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables/long-term receivables	
	2014	2013
	RMB'000	RMB'000
Carrying value of assets under continuous involvement	**1,946,869**	2,860,047
Carrying value of liabilities under continuous involvement	**1,961,596**	2,898,620

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets (continued)

Transferred financial assets that are not derecognized in their entirety (continued)

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 31 December 2014, the amount of factored trade receivables was RMB4,862,683,000 (31 December 2013: RMB5,650,326,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2014, the amount of bank advances on factored trade receivables was RMB4,877,410,000 (31 December 2013: RMB5,688,899,000)

Transfer of 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 2014, under the above arrangement, trade receivable due from the customer amounted to RMB6,559,107,000 (31 December 2013: RMB6,837,218,000) among which RMB5,247,286,000 (31 December 2013: RMB5,469,775,000) 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 RMB1,311,821,000 (31 December 2013: RMB1,367,443,000) 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 2014 amounted to RMB275,668,000 (31 December 2013: RMB341,624,000), comprising RMB71,233,000 (31 December 2013: RMB84,084,000) due within one year and classified as other payables (see Note V. 28) and RMB204,435,000 (31 December 2013: RMB257,540,000) due after one year and classified as other non-current liabilities (see Note V. 33).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets (continued)

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the year. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB294,779,000 (31 December 2013: RMB491,634,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognized at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. For the relevant period, the Group did not recognise any profit or loss in respect of the derecognised bills receivable as at the date of transfer. No profit or loss relating to continuous involvement was recognised in respect of the current year and the previous year.

3. Risks of financial instruments

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. The Group's policies for managing each of these risks are summarized as follows.

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Although the top five accounts accounted for 32.09% (2013: 32.73%) 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.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (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:

2014

			Overdue for			
	Total	Not overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	25,152,963	2,533,268	20,778,967	1,619,968	220,760	—
Long-term receivables	266,501	266,501	—	—	—	—
Other receivables	2,159,677	—	1,592,615	317,980	159,854	89,228

2013

			Overdue for			
	Total	Not overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	21,393,257	3,566,625	15,223,232	2,407,100	196,300	—
Long-term receivables	366,762	366,762	—	—	—	—
Other receivables	1,666,645	—	1,357,563	199,854	61,510	47,718

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk

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 liabilities based on undiscounted contractual cash flow is summarised as follows:

2014

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Banks loans	—	11,193,023	6,431,576	1,368,816	3,048,910	22,042,325
Financial liabilities at fair value through current profit and loss	—	70,604	—	—	—	70,604
Bills payable	—	10,381,688	—	—	—	10,381,688
Trade payables	19,244,400	—	—	—	—	19,244,400
Bank advances on factored trade receivables and factored long-term trade receivable	—	3,254,431	638,663	389,151	735,447	5,017,692
Other payables (excluding accruals and staff housing fund contributions)	6,342,602	—	—	—	—	6,342,602
Bonds payable	—	6,252,000	—	—	—	6,252,000
Other non-current liabilities	50,000	571	74,223	63,889	189,065	377,748
	25,637,002	31,152,317	7,144,462	1,821,856	3,973,422	69,729,059

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

2013

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Banks loans	—	15,508,467	839,379	5,023,976	—	21,371,822
Financial liabilities at fair value through current profit and loss	—	67,779	—	—	—	67,779
Bills payable	—	8,498,021	—	—	—	8,498,021
Trade payables	16,492,534	—	—	—	—	16,492,534
Bank advances on factored trade receivables and factored long-term trade receivable	—	3,377,374	729,055	546,622	1,120,002	5,773,053
Other payables (excluding accruals and staff housing fund contributions)	7,707,360	84,084	—	—	—	7,791,444
Bonds payable	—	252,000	6,252,000	—	—	6,504,000
Other non-current liabilities	50,000	—	77,597	63,935	189,065	380,597
	24,249,894	27,787,725	7,898,031	5,634,533	1,309,067	66,879,250

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 31 December 2014, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.44% and 7.2%. In addition, the Group borrowed a USD900 million loan at floating interest rates. The Group intends to enter into interest rate swaps with a nominal principal amount of no more than USD900 million at an appropriate timing as a hedge against the said USD loan, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. As at 31 December 2014, taking into account interest rate swaps for a nominal principal amount of USD100 million (2013: USD100 million) already executed, approximately 40% (2013: 30%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on total profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	Increase/ (decrease) in basis points	Increase/ (decrease) in total profit	Increase/ (decrease) in shareholders' equity*
2014	**0.25%**	**(31,557)**	**5,591**
	(0.25%)	**31,557**	**(5,591)**
2013	0.25%	(36,641)	4,065
	(0.25%)	36,641	(4,065)

* excluding retained earnings.

Foreign currency risk

The Group is exposed to trading exchange rate risks. 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.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's total profit, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in US dollars exchange rate	Increase/ (decrease) in total profit
2014		
Weaker RMB against USD	**3%**	**38,204**
Stronger RMB against USD	**(3%)**	**(38,204)**
2013		
Weaker RMB against USD	3%	37,160
Stronger RMB against USD	(3%)	(37,160)

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in total profit
2014		
Weaker RMB against EUR	**5%**	**136,696**
Stronger RMB against EUR	**(5%)**	**(136,696)**
2013		
Weaker RMB against EUR	5%	185,118
Stronger RMB against EUR	(5%)	(185,118)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years 2014 and 2013.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	2014	2013
	RMB'000	RMB'000
Interest-bearing bank borrowings	**21,080,836**	20,728,630
Interest-bearing bonds	**6,131,185**	6,119,590
Bank advances on factored trade receivables and long-term trade receivables	**4,877,410**	5,688,899
Total interest-bearing liabilities	**32,089,431**	32,537,119
Owners' equity	**26,292,504**	23,625,689
Total equity and interest-bearing liabilities	**58,381,935**	56,162,808
Gearing ratio	**55.0%**	57.9%

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IX. DISCLOSURE OF FAIR VALUE

1. Assets and liabilities measured at fair value:

2014

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Financial assets at fair value through current profit and loss:				
Trading financial assets				
Derivative financial assets	—	240,973	—	240,973
Available-for-sale financial assets				
Investment in equity instruments	319,470	—	—	319,470
Investment properties				
Leased properties	—	—	2,004,465	2,004,465
	319,470	240,973	2,004,465	2,564,908
Financial liabilities at fair value through current profit and loss				
Trading financial liabilities				
Derivative financial liabilities	—	(64,904)	—	(64,904)
Hedging instruments	—	(6,581)	—	(6,581)
	—	(71,485)	—	(71,485)

2013

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Financial assets at fair value through current profit and loss:				
Trading financial assets				
Derivative financial assets	—	217,454	—	217,454
Available-for-sale financial assets				
Investment in equity instruments	364,479	—	—	364,479
Investment properties				
Leased properties	—	—	1,855,246	1,855,246
	364,479	217,454	1,855,246	2,437,179
Financial liabilities at fair value through current profit and loss				
Trading financial liabilities				
Derivative financial liabilities	—	(61,659)	—	(61,659)
Hedging instruments	—	(10,406)	—	(10,406)
	—	(72,065)	—	(72,065)

Notes to Financial Statements

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IX. DISCLOSURE OF FAIR VALUE (continued)

2. Assets and liabilities disclosed at fair value

2014

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Long-term receivables	—	266,501	—	266,501
Long-term loans	—	10,039,687	—	10,039,687
Bonds payable	—	6,131,185	—	6,131,185

2013

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Long-term receivables	—	366,762	—	366,762
Long-term loans	—	5,385,673	—	5,385,673
Bonds payable	—	6,119,590	—	6,119,590

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IX. DISCLOSURE OF FAIR VALUE (continued)

3. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximates the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 31 December 2014, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices.

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 2014, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

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IX. DISCLOSURE OF FAIR VALUE (continued)

3. Estimation of fair value (continued)

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 carrying amount of investment properties at 31 December 2014 was RMB2,004,465,000 (2013: RMB1,855,246,000).

4. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of level 3:

2014

	Fair value at year-end	**Valuation techniques**	**Unobservable inputs**	**Range (weighted average)**
Commercial properties	**RMB2,004,465,000**	**Discounted cash flow method**	**Estimated rental value (per sq. m. and per month)**	**RMB24 to 477**
			Rent growth (p.a.)	**1%–5%**
			Long term vacancy rate	**5%**
			Discount rate	**6%**

2013

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB1,855,246,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB24 to 477
			Rent growth (p.a.)	1%–5%
			Long term vacancy rate	5%
			Discount rate	6%

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IX. DISCLOSURE OF FAIR VALUE (continued)

5. Fair value measurement adjustment

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

2014

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or loss for the period		Acquisition	Closing balance	Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss
				Included in profit and loss	Included in other comprehensive income			
Investment properties	**1,855,246**	**—**	**—**	**130,306**	**—**	**18,913**	**2,004,465**	**130,306**

2013

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or loss for the period		Acquisition	Closing balance	Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss
				Included in profit and loss	Included in other comprehensive income			
Investment properties	1,686,158	—	—	38,704	—	130,384	1,855,246	38,704

In the continuous fair value measurement at level 3, profit and loss included in current profit and loss relating to financial assets and non-financial assets is analysed as follows:

	2014 Relating to non-financial assets	2013 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	**130,306**	38,704
Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss	**130,306**	38,704

6. Transfers between levels of fair value measurement

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.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	30.78%	30.78%

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 VI. Changes in the Scope of Consolidation and Note VII Interests in Other Entities.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note V. 11.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties

	Relationship
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Under the same controlling shareholder as the Company
Zhongxing Xinzhou Complete Equipment Company Limited	Under the same controlling shareholder as the Company
深圳市新宇騰躍電子有限公司 (Formerly "Shenzhen Zhongxing Xinyu FPC Company Limited")	Under the same controlling shareholder as the Company
深圳市中興昆騰有限公司	Subsidiary of the Company's controlling shareholder
中興儀器(深圳)有限公司	Subsidiary of the Company's controlling shareholder
上海中興派能能源科技有限公司	Subsidiary of the Company's controlling shareholder
深圳中興創新材料技術有限公司	Subsidiary of the Company's controlling shareholder
南京中興群力信息科技有限公司	Subsidiary of an associate of the Company
Zhongxing Energy (Inner Mongolia) Company Limited	Subsidiary of an associate of the Company
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
中興能源(天津)節能服務有限公司	Indirect subsidiary of an associate of the Company
鄂爾多斯市雲端科技有限公司	Indirect subsidiary of an associate of the Company
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company for which a supervisor of the Company's controlling shareholder acted as director
Shenzhen Zhongxing Information Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder
Shenzhen Gaodonghua Communication Technology Company Limited	Company for which a connected natural person of the Company acted as chairman
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Company for which a connected natural person of the Company acted as chairman
北京協力超越科技有限公司	Subsidiary of shareholders of the Company's controlling shareholder
Shenzhen Aerospace Guangyu Industrial Company Limited	Company for which a Director of the Company acted as director
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
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
Huatong Technology Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
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
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
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
杭州中興發展有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
中興綠色農業有限公司	Indirect subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
重慶中興中投物業服務有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
深圳市中興長天信息技術有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
Zhongxing Development Company Limited	Company for which the Chairman of the Company concurrently acted as chairman
北京市天元網絡技術股份有限公司*	Company for which the Independent Director of the Company concurrently acted as Independent director
深圳中興科揚節能環保股份有限公司	Company for which a connected natural person of the Company acted as director
深圳市中興環境儀器有限公司	Company for which a connected natural person of the Company acted as director

* An independent director of the Company ceased to be the independent director of the company with effect from November 2012. With effect from December 2013, the company ceased to be a related party of the Company.

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X. 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:

	2014 Amount	2013 Amount
Shenzhen Zhongxing Information Company Limited	6	1,069
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	3,800	2,658
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	2,600	2,370
ZTE Software Technology (Nanchang) Company Limited	1,210	135
Mobi Antenna Technologies (Shenzhen) Company Limited	61	61
南京中興群力信息科技有限公司	1,674	1,197
普興移動通訊設備有限公司	530,347	109,868
北京協力超越科技有限公司	20	127
深圳市中興昆騰有限公司	89	2,850
Zhongxing Development Company Limited	–	44
上海歡流傳媒有限公司	17,037	411
Zhongxing Energy Company Limited	2	6,604
深圳市航天歐華科技發展有限責任公司	405,397	49,882
Telecom Innovations	19,076	1,048
興天通訊技術(天津)有限公司	1,047	7,404
深圳市中興環境儀器有限公司	–	1,740
南京中興和泰酒店管理有限公司	–	9
中興九城網絡科技無錫有限公司	13,145	1,648
Zhongxing Energy (Inner Mongolia) Company Limited	–	2
深圳中興創新材料技術有限公司	32	10
深圳中興科揚節能環保股份有限公司	–	17
中興軟件技術(瀋陽)有限公司	2	–
江蘇中興微通信息科技有限公司	337	–
上海市和而泰酒店投資管理有限公司	18	–
寧波中興雲祥科技有限公司	306	–
上海中興思秸通訊有限公司	741	–
三河中興發展有限公司	5	–
中興儀器(深圳)有限公司	209	–
深圳市中興長天信息技術有限公司	157	–
	997,318	189,154

In 2014, sales to related parties accounted for 1.21% of the Group's total sales. (2013: 0.24%).

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X. 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)

Purchases from related parties

	2014 Amount	2013 Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**260,991**	227,609
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**203,907**	200,396
深圳市新宇騰躍電子有限公司	**75,916**	62,105
Mobi Antenna Technologies (Shenzhen) Company Limited	**782,107**	426,865
Huatong Technology Company Limited	**25,927**	37,318
ZTE Software Technology (Nanchang) Company Limited	**27,938**	9,066
Shenzhen Zhongxing Information Company Limited	**4,273**	3,363
Wuxi Kaier Technology Company Limited **	**—**	30,728
Shenzhen Aerospace Guangyu Industrial Company Limited	**—**	20,684
深圳市航天歐華科技發展有限責任公司	**—**	10,598
上海歡流傳媒有限公司	**—**	296
北京億科三友科技發展有限公司	**—**	1,540
中興能源(天津)節能服務有限公司	**—**	6,209
北京市天元網絡技術股份有限公司*	**—**	1,181
深圳市中興昆騰有限公司	**—**	3,800
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**26,311**	29,815
南京中興和泰酒店管理有限公司	**3,231**	2,080
上海市和而泰酒店投資管理有限公司	**3,872**	3,808
西安中興和泰酒店管理有限公司	**1,089**	1,498
Zhongxing Energy (Shenzhen) Company Limited	**1,865**	1,873
Zhongxing Energy (Tianjin) Company Limited	**4,559**	1,029
Xi'an Microelectronics Technology Research Institute	**164**	—
南京中興群力信息科技有限公司	**128**	—
普興移動通訊設備有限公司	**21,111**	—
中興九城網絡科技無錫有限公司	**5,432**	—
上海中興思秸通訊有限公司	**1,969**	—
興天通訊技術(天津)有限公司	**12,659**	—
	1,463,449	1,081,861

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X. 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)

Purchases from related parties (continued)

In 2014, purchases from related parties accounted for 2.99% of the Group's total purchases (2013: 2.74%).

** In November 2013, Wuxi Zhongxing was deconsolidated from the financial statements, and Wuxi KaiEr Technology Company Limited and Wuxi Hongtu Micro-electronic Technology Co., Ltd, associates of Wuxi Zhongxing, ceased to be related parties of the Group. The connected transactions with the two said companies set out above comprised only transactions with the Group conducted during the period when they were related parties of the Group.

(2) Leasing with related parties:

As lessor

2014

	Property leased	**2014 Lease income**	2013 Lease income
Zhongxing Development Company Limited	Office	**2,146**	2,146
北京協力超越科技有限公司	Office	**—**	11
深圳中興科揚節能環保股份有限公司	Office	**315**	311
中興綠色農業有限公司	Office	**273**	236
普興移動通訊設備有限公司	Office	**258**	85
中興儀器(深圳)有限公司	Office	**780**	293
深圳市中興昆騰有限公司	Office	**—**	403
南京中興群力信息科技有限公司	Office	**452**	267
上海歡流傳媒有限公司	Office	**320**	313
Wuxi Hongtu Micro-electronic Technology Co., Ltd **	Office	**—**	180
上海中興思秸通訊有限公司	Office	**886**	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	**11,598**	8,080
南京中興和泰酒店管理有限公司	Property and equipment and facilities	**4,954**	4,276
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	**21,915**	14,580
西安中興和泰酒店管理有限公司	Property and equipment and facilities	**17,720**	14,755

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(2) Leasing with related parties: (continued)

As lessee

	Property leased	**2014 Lease expense**	2013 Lease expense
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	**8,827**	8,827
Zhongxing Development Company Limited	Office	**42,931**	44,221
Chongqing Zhongxing Development Company Limited	Office	**8,031**	8,405
三河中興發展有限公司	Office	**5,078**	779
三河中興物業服務有限公司	Office	**1,207**	136

(3) Guarantees for related parties:

In 2014 and 2013, no guarantee was provided by/to related parties to/by the Group.

(4) Transfer of equity interests to related parties

In 2014 and 2013, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

In 2014 and 2013, the Group did not transfer any assets to related parties.

(6) Other major related transactions

	2014	2013
Remuneration of key management personnel	**46,163**	19,062

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X. 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
(ii)	Leasing property from/to related parties:	Office space was leased to the aforesaid related parties by the Group during the year and lease income of RMB61,617,000 (2013: RMB45,936,000) was recognized in accordance with relevant lease contracts.
		Office space was leased to the Group by the aforesaid related parties during the year and lease expenses of RMB66,074,000 (2013: RMB62,368,000) was recognized in accordance with relevant lease contracts.
(iii)	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 RMB46,163,000 (2013: RMB19,062,000). The corresponding cost for share-based payment was RMB9,259,000 (2013: RMB1,543,000).

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. For details of purchases conducted during the year, please refer to Note X.5 (1). The maximum amount of total purchases by the Group for the year 2015 is estimated at RMB1,100 million (before VAT).

(2) In December 2012, the Group entered into a purchase agreement for a term of 3 years with Mobi Antenna Technologies (Shenzhen) Company Limited for the purchase of raw materials for use in production. For details of purchases conducted during the year, please refer to Note X.5 (1). The maximum amount of total purchases by the Group for the year 2015 is estimated at RMB900 million (before VAT).

(3) In May 2014, 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 X. 5 (1). The maximum amount of purchase of hotel services for 2015 is estimated at RMB70,192,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(4) In December 2014, the Group entered into a software outsourcing service and purchase agreement for a term of 3 years with Huatong Technology Company Limited ("Huatong") for the purchase of software outsourcing services from Huatong. For details of purchases conducted during the year, please refer to Note X.5 (1). The maximum amounts of total purchases by the Group for the years 2015–2017 are estimated at RMB60 million, RMB67 million and RMB75 million (before VAT), respectively.

(5) In December 2014, the Group entered into a software outsourcing service and purchase agreement for a term of 3 years with ZTE Software Technology (Nanchang) Company Limited ("ZTE Nanchang") for the purchase of software outsourcing services from ZTE Nanchang. For details of purchases conducted during the year, please refer to Note X.5 (1). The maximum amounts of total purchases by the Group for the years 2015-2017 are estimated at RMB51 million, RMB63 million and RMB79 million (before VAT), respectively.

(6) In December 2014, the Group entered into a product and service sales agreement for a term of 3 years with ZTE Software Technology (Nanchang) Company Limited for the sales of products and provision of services to ZTE Nanchang. For details of sales conducted during the year, please refer to Note X.5 (1). The maximum amounts of total sales by the Group for the years 2015–2017 are estimated at RMB29 million, RMB30 million and RMB31 million (before VAT), respectively.

(7) In December 2014, the Group entered into a property lease agreement for a term of 1 years with Zhongxing Development Company Limited.. For details of rental income incurred during the year, please refer to Note X. 5 (2). The annual rental income for 2015 is estimated at approximately RMB2,146,000.

(8) In December 2014, the Group entered into a property lease agreement for a term of 1 years with 深圳中興科揚節能環保股份有限公司.. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015 to be RMB139,000.

(9) In July 2014, the Group entered into a property lease agreement for a term of 2 years with 深圳中興科揚節能環保股份有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The annual rental income for 2015 and 2016 is estimated at approximately RMB180,000 and RMB90,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(10) In October 2014, the Group entered into a property lease agreement for a term of 5 months with 中興綠色農業有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015 to be RMB32,000.

(11) In January 2014, the Group entered into a property lease agreement for a term of 4 years with 普興移動通訊設備有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rental income for the years 2015-2017 to be RMB258,000, respectively.

(12) In June 2014, the Group entered into a property lease agreement for a term of 3 years with 中興儀器(深圳)有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015, 2016 and 2017 to be RMB1,129,000, RMB1,129,000 and RMB470,000, respectively.

(13) In October 2014, the Group entered into a property lease agreement for a term of 2 years with 南京中興群力信息科技有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015 and 2016 to be RMB468,000 and RMB351,000, respectively.

(14) In July 2014, the Group entered into a property lease agreement for a term of 2 years with 上海歡流傳媒有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015 and 2016 to be RMB328,000 and RMB164,000, respectively.

(15) In July 2014, the Group entered into a property lease agreement for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiary. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015 to be RMB41,542,000.

(16) In January 2014, the Group entered into a property lease agreement for a term of 14 months with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2015 to be RMB148,000.

(17) In April 2013, the Group entered into a lease agreement for a term of 2 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental for 2015 to be RMB2,575,000.

(18) In July 2014, the Group entered into a lease agreement for a term of 9.5 months with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental for 2015 to be RMB11,704,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(19) In December 2012, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rental for 2015 to be approximately RMB581,000.

(20) In March 2014, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rental for 2015, 2016 and 2017 to be RMB5,500,000, RMB5,500,000 and RMB1,029,000, respectively.

(21) In December 2012, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rental for 2015 to be RMB97,000.

(22) In March 2014, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rental for 2015, 2016 and 2017 to be RMB2,049,000, RMB2,049,000 and RMB469,000, respectively.

(23) In December 2014, the Group entered into a lease agreement for a term of 3 years with Chongqing Zhongxing Development Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the maximum annual rental for the years 2015-2017 to be RMB13,000,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	2014	2013
Bills receivable	深圳市航天歐華科技發展有限責任公司	**95,836**	84,312
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**166**	610
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**514**	120
		96,516	85,042
Trade receivables	普興移動通訊設備有限公司	**418,059**	81,048
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**930**	1,031
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**1,314**	961
	Xi'an Microelectronics Technology Research Institute	**9**	9
	深圳市中興昆騰有限公司	**37**	2,936
	深圳市航天歐華科技發展有限責任公司	**60,097**	5,598
	上海中興派能能源科技有限公司	**28**	28
	中興九城網絡科技無錫有限公司	**839**	1,922
	鄂爾多斯市雲端科技有限公司	**1**	1
	興天通訊技術(天津)有限公司	**2,928**	8,631
	江蘇中興微通信息科技有限公司	**2**	—
	上海歡流傳媒有限公司	**2,970**	—
	寧波中興雲祥科技有限公司	**86**	—
	上海中興思秸通訊有限公司	**24**	—
	ZTE Software Technology (Nanchang) Company Limited	**116**	—
	中興儀器(深圳)有限公司	**132**	—
	Shenzhen Zhongxing Information Company Limited	**—**	9
	深圳市新宇騰躍電子有限公司	**—**	85
	北京協力超越科技有限公司	**—**	9
	Mobi Antenna Technologies (Shenzhen) Company Limited	**—**	127
	Zhongxing Development Company Limited	**—**	52
	深圳中興創新材料技術有限公司	**—**	5
		487,572	102,452

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

Item	Name of related parties	2014	2013
Prepayment	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	445	493
	重慶中興中投物業服務有限公司	100	—
	中興九城網絡科技無錫有限公司	2,250	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	283	—
	Zhongxing Development Company Limited	14	—
	Shenzhen Zhongxing Information Company Limited	—	229
	南京中興群力信息科技有限公司	—	186
		3,092	908
Dividend receivable	Shenzhen Yuanxing Technology Co., Ltd***	—	400
Other receivables	南京市中興和泰酒店管理有限公司	2	2
	南京飄訊網絡科技有限公司	179	22
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	1,727	1,820
	杭州中興發展有限公司	304	304
	江蘇中興微通信息科技有限公司	30	—
	深圳市中興新通訊設備有限公司	174	—
	北京億科三友科技發展有限公司	5,840	—
	興天通訊技術(天津)有限公司	5,534	—
	中興九城網絡科技無錫有限公司	29	—
	Mobi Antenna Technologies (Shenzhen) Company Limited	61	—
	Shenzhen Zhongxing Information Company Limited	38	—
	北京協力超越科技有限公司	123	—
	Zhongxing Development Company Limited	72	—
		14,113	2,148
Bills payable	中興九城網絡科技無錫有限公司	2,166	—
	Mobi Antenna Technologies (Shenzhen) Company Limited	449	—
	深圳市新宇騰躍電子有限公司	6,908	3,588
	南京中興群力信息科技有限公司	150	450
		9,673	4,038

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

Item	Name of related parties	2014	2013
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**53,879**	56,507
	深圳市新宇騰躍電子有限公司	**17,251**	6,649
	Mobi Antenna Technologies (Shenzhen) Company Limited	**133,225**	159,768
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**778**	24,238
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	**183**	183
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	327
	Shenzhen Zhongxing Information Company Limited	**5,632**	4,531
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	普興移動通訊設備有限公司	**20,669**	1,433
	深圳市航天歐華科技發展有限責任公司	**2,795**	9,170
	中興能源(天津)節能服務有限公司	**3,801**	5,538
	Shenzhen Aerospace Guangyu Industrial Company Limited	**—**	2,000
	興天通訊技術(天津)有限公司	**7,894**	—
	上海中興思秸通訊有限公司	**5**	—
	Xi'an Microelectronics Technology Research Institute	**192**	—
	南京中興群力信息科技有限公司	**—**	150
	中興九城網絡科技無錫有限公司	**—**	56
		246,807	270,726
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,327
	普興移動通訊設備有限公司	**4**	1,048
	Xi'an Microelectronics Technology Research Institute	**1,628**	2
	北京協力超越科技有限公司	**155**	155
	南京中興群力信息科技有限公司	**7,821**	352
	深圳市航天歐華科技發展有限責任公司	**33,909**	4,858
	中興軟件技術(瀋陽)有限公司	**3**	3
	上海歡流傳媒有限公司	**5,250**	—
	興天通訊技術(天津)有限公司	**1,272**	—
	上海中興思秸通訊有限公司	**310**	—
	ZTE Energy Co., Ltd.	**1**	—
	深圳市中興昆騰有限公司	**4**	—
	中興儀器(深圳)有限公司	**450**	—
	深圳中興創新材料技術有限公司	**138**	—
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	**18**	—
		56,290	11,745

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

Item	Name of related parties	2014	2013
Other payables	深圳市新宇騰躍電子有限公司	**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	**260**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**310**	1,308
	深圳市中興昆騰有限公司	**51**	—
	江蘇中興微通信息科技有限公司	**3**	—
	興天通訊技術(天津)有限公司	**345**	—
	ZTE Energy Co., Ltd.	**85**	—
	Huatong Technology Company Limited	**227**	—
	深圳中興新源環保股份有限公司	**4**	—
	上海中興思秸通訊有限公司	**70**	—
		1,499	1,667

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

*** Following its disposal in December 2014, Shenzhen Yuanxing Technology Co., Ltd. ("Yuanxing") was no longer a related party of the Group. While there were balances in dividend receivable and other receivables as at the end of 2014, such amounts were not amounts receivable from related parties and hence were presented as nil.

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

(1) Customer deposits

	2014	2013
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**19,237**	—
南京中興和泰酒店管理有限公司	**3,086**	3,305
上海市和而泰酒店投資管理有限公司	**4,571**	12,366
西安中興和泰酒店管理有限公司	**6,879**	8,675
北京億科三友科技發展有限公司	**—**	51
	33,773	24,397

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(2) *Interest expenses*

	2014	2013
Wuxi Kaier Technology Company Limited **	—	24
南京中興和泰酒店管理有限公司	39	34
上海市和而泰酒店投資管理有限公司	120	132
西安中興和泰酒店管理有限公司	137	11
北京億科三友科技發展有限公司	—	32
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	75	—
	371	233

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

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

(4) *Release of loans and advances — discounted bills*

	2014	2013
北京億科三友科技發展有限公司	—	491
杭州中興發展有限公司	429	—
	429	491

As at 31 December 2014, issuers of bills of approximately RMB429,000 (31 December 2013: RMB491,000) were Group companies. Assets and liabilities arising therefrom have been set off on consolidation of the Group account.

(5) *Interest income from loans and bills discounting*

	2014	2013
Wuxi Kaier Technology Company Limited**	—	4,224
杭州中興發展有限公司	3	—
北京億科三友科技發展有限公司	110	538
	113	4,762

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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

(6) Interest receivable

	2014	2013
北京億科三友科技發展有限公司	—	13
	—	13

(7) Interest payable

	2014	2013
南京中興和泰酒店管理有限公司	1	1
上海市和而泰酒店投資管理有限公司	4	4
西安中興和泰酒店管理有限公司	5	1
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5	—
	15	6

XI. SHARE-BASED PAYMENT

1. Overview

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

Equity-settled share-based payments are as follows:

	2014	2013
Accumulated balance of equity-settled share-based payments credited to capital reserves	201,097	22,856
Total costs of equity-settled share-based payments in the year	178,241	29,707

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(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the Listed Companies' Regulation Department I of CSRC had confirmed it had no objection to the Company convening a general meeting to consider the share option incentive scheme in accordance with the Administrative Measures on Share Incentives of Listed Company (Trial) (《上市公司股權激勵管理辦法(試行)》). On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at Eighth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013 Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price, subject to the conditions of exercise. The source of 2 shares under the Scheme shall be shares of the Company issued to the Participants by the Company by way of placing. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the company's shares or the actual controller of the Company and their spouse or blood relative.

The share options shall be valid for a period of 5 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69/share. The share options not exercisable due to failing to fulfill the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity ("ROE"):

(2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

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(Prepared in accordance with PRC ASBEs)
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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	From 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

The fair value of the share options granted in 2014 amounted to RMB524,023,000, among which the share options tariff confirmed by the Company in 2014 amounted to RMB178,241,000.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Estimated dividend payment (RMB)		0.18	0.18	0.18
Volatility (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

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(Prepared in accordance with PRC ASBEs)
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XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	2014	2013
Capital commitments		
Contracted but not provided of	**214,356**	264,314
Authorised by the Board but not yet contracted	**21,897,474**	21,566,513
	22,111,830	21,830,827
Investment commitments		
Contracted but performance not completed	**8,323**	17,304

2. Contingent events

2.1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB47,229,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB20,306,000) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the litigation is likely to continue for a prolonged period. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated. No additional provision in respect of the litigation was made.

Notes to Financial Statements

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

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People's Court ("Nanshan 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 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 filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth's case with Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth was not required to pay the penalty payment of RMB12.817 million to the Company.

In October and November 2009, the Company further instituted two lawsuits with Nanshan Court, demanding China Construction Fifth 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.

Notes to Financial Statements

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

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. (continued)

In July 2009, China Construction Fifth instituted a litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The Shenzhen Intermediate People's Court issued its first-trial judgement in November 2012 which ruled contract amounts of approximately RMB14,497,000 together with interest accrued thereon and losses incurred as a a result of work delay and suspension amounting to approximately RMB953,000 to be paid by the Company to China Construction Fifth; while RMB20,150,000 withheld by China Construction Fifth together with interest accrued thereon shall be refunded by China Construction Fifth to the Company. Other claims of China Construction Fifth were rejected. rejected. China Construction Fifth filed an appeal with Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company.

In July 2014, China Construction Fifth instituted a lawsuit with the Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3 A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.5. On 29 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict, and the appeal process has currently been suspended. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. Court hearing in respect of the remaining patent involved has been postponed to April 2015. The Company and ZTE USA have engaged a legal counsel to conduct active defense of the case and will consider whether to file an appeal based on the verdicts on the four patents involved in the litigation.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.6. On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interest and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB223 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements. On the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State. ZTE Brazil also pointed out that the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil was notified of the ruling by the primary administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State. As at the balance sheet date, the Company had made a provision of BRL5.22 million (equivalent to approximately RMB14.77 million) in respect of the said litigation.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim can be reliably estimated. No additional provision in respect of the litigation was made.

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

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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(Prepared in accordance with PRC ASBEs)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.8. In July 2012, Technology Properties Limited LLC filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA. in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 19 February 2014, ITC announced the final decision on the case that the Company and ZTE USA did not infringe upon Section 337. Currently, the litigation procedure at the Federal District Court of California has been resumed. There has been no substantial progress in the litigation process.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.9. 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 RMB72,530,000). On 7 February 2013, Civil Court of Brasilia ruled that given that there was no obvious dispute over obligation between the said Brazilian company and any other company and no sign of bankruptcy, the freeze on the assets was suspended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanded compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB192 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.10. In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH ("ZTE Service"), a wholly-owned subsidiary of the Company. As the UMTS products of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

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

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

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(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.10. (continued)

In June 2014, Vringo filed a patent litigation with the Court of Bucharest, Romania against the Company and ZTE Romania SRL ("ZTE Romania"), a wholly-owned subsidiary of the Company, pleading for the LTE products of the Company and ZTE Romania supporting Circuit Switched Fall Back functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In September 2014, the Court of Bucharest issued a provisional injunction order against ZTE Romania in respect of LTE products, and ZTE Romania filed an appeal to the Court of Appeal of Bucharest. In October 2014, the Court of Appeal of Bucharest ruled to suspend the provisional injunction order.

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

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.11. As at 31 December 2014, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,458,959,000 (31 December 2013: RMB7,022,304,000).

2.12. As at 31 December 2014, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB63,701,000 (31 December 2013: RMB46,311,000).

XIII. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the "Resolution on the Proposed Registration and Issue of Perpetual Medium Term Note of the Company" considered and approved at the First Extraordinary General Meeting of 2014 of the Company held on 15 October 2014, approval was granted to the Company for the issue of perpetual medium term notes ("Medium Term Notes") with an amount of no more than RMB9 billion. On 27 January 2015, the issue of the 2015 first tranche of Medium Term Notes with an amount of RMB6 billion was completed. On 6 February 2015, the issue of the 2015 second tranche of Medium Term Notes with an amount of RMB1.5 billion was completed.

Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB2 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,437,541,278 shares as at 31 December 2014, and 2 bonus shares will also be issued for every 10 shares held by shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. The profit distribution proposal is subject to approval by the annual general meeting of the Company.

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XIV. 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:

	2014	2013
Within one year (including first year)	**282,519**	389,625
In the first to second years (including second year)	**122,796**	308,149
In the second to third years (including third year)	**76,897**	184,079
After the third year	**36,648**	205,126
	518,860	1,086,979

2. Segment reporting

Operating segments

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(1) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications;

(2) The handset 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.

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payables, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the fair value prices used for sales made to third parties.

2014

	Network (communication systems)	Handset terminals	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	46,768,231	–	11,553,352	58,321,583
Sales of goods and services	–	23,117,090	32,602	23,149,692
Sub-total	46,768,231	23,117,090	11,585,954	81,471,275
Segment results	11,366,945	278,804	2,475,014	14,120,763
Unallocated revenue				3,787,643
Unallocated cost				(12,364,446)
Finance costs				(2,100,977)
Gain from changes in fair values				148,282
Investment loss from associates and joint ventures				(53,043)
Total profit				3,538,222
Income tax				(810,492)
Net Profit				2,727,730
Total assets				
Segment assets	36,161,825	17,874,444	8,958,415	62,994,684
Unallocated assets				43,219,512
Sub-total				106,214,196
Total liabilities				
Segment liabilities	8,866,579	938,004	2,203,453	12,008,036
Unallocated liabilities				67,913,656
Sub-total				79,921,692
Supplemental information				
Depreciation and amortization expenses	1,048,090	518,061	259,645	1,825,796
Capital expenditure	1,570,928	776,495	389,167	2,736,590
Asset impairment losses	690,136	341,128	170,968	1,202,232

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

2013

	Network (communication systems)	Handset terminals	Telecommunication software systems, services and other products	Total
Segment revenue				
Revenue from telecommunications systems contracts	40,695,724	—	12,473,948	53,169,672
Sales of goods and services	—	21,702,058	361,994	22,064,052
Sub-total	40,695,724	21,702,058	12,835,942	75,233,724
Segment results	9,208,655	17,946	1,797,837	11,024,438
Unallocated revenue				3,465,428
Unallocated cost				(10,440,196)
Finance costs				(2,460,303)
Gain from changes in fair values				204,010
Investment income from associates and joint ventures				34,466
Total profit				1,827,843
Income tax				(394,207)
Net profit				1,433,636
Total assets				
Segment assets	33,992,931	10,767,784	10,721,797	55,482,512
Unallocated assets				44,596,985
Sub-total				100,079,497
Total liabilities				
Segment liabilities	8,626,156	800,876	2,720,797	12,147,829
Unallocated liabilities				64,305,979
Sub-total				76,453,808
Supplemental information				
Depreciation and amortization expenses	944,029	503,428	297,759	1,745,216
Capital expenditure	1,453,649	775,196	458,500	2,687,345
Asset impairment losses	859,791	458,506	271,189	1,589,486

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2014	2013
The PRC	**40,583,527**	35,635,964
Asia (excluding the PRC)	**12,131,576**	13,849,495
Africa	**6,174,187**	5,866,115
Europe, America and Oceania	**22,581,985**	19,882,150
	81,471,275	75,233,724

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2014	2013
The PRC	**11,812,310**	11,486,177
Asia (excluding the PRC)	**1,198,456**	1,003,837
Africa	**375,623**	335,313
Europe, America and Oceania	**1,130,718**	896,663
	14,517,107	13,721,990

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets, deferred tax assets and other long-term receivables) are located.

Information of major customers

Operating revenue of RMB17,963,359,000 was derived from carriers' network and handset terminal revenue from one major customer (2013: RMB11,993,737,000 from one major customer).

3. Comparative data

As stated in Note II.2, the adoption of certain ASBEs with effect from 1 July 2014 resulted in the revision of the accounting treatment and presentation of certain items and the adjustment of certain amounts in the financial statements to comply with the new requirement. Certain data for the prior year have also been restated accordingly.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

Aging analysis of trade receivables:

	2014	2013
Within 1 year	**27,795,706**	24,930,582
1-2 years	**5,042,898**	6,126,670
2-3 years	**2,788,914**	2,553,484
Over 3 years	**4,131,488**	3,192,083
	39,759,006	36,802,819
Less: bad debt provision for trade receivables	**3,138,286**	2,772,332
	36,620,720	34,030,487

	2014				2013			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	**458,033**	**1**	**458,033**	**100**	455,008	1	455,008	100
For which bad debt provision has been collectively made								
0-6 months	**23,497,793**	**59**	**—**	**—**	20,944,486	57	—	—
7-12 months	**4,297,913**	**11**	**160,968**	**4**	3,986,096	11	138,797	3
13-18 months	**3,631,313**	**9**	**311,189**	**9**	4,292,764	12	544,511	13
19-24 months	**1,411,584**	**4**	**430,435**	**30**	1,831,038	5	326,279	18
2-3 years	**2,786,001**	**7**	**834,942**	**30**	2,521,816	7	423,080	17
Over 3 years	**3,676,369**	**9**	**942,719**	**26**	2,771,611	7	884,657	32
	39,300,973	**99**	**2,680,253**	**7**	36,347,811	99	2,317,324	6
	39,759,006	**100**	**3,138,286**		36,802,819	100	2,772,332	

Movements in bad-debt provisions for trade receivables:

	Opening balance	**Provision for the year**	**Decrease during the year**		**Closing balance**
			Write back	**Write off**	
2014	**2,772,332**	**414,061**	**—**	**(48,107)**	**3,138,286**
2013	2,034,184	841,840	—	(103,692)	2,772,332

There was no write-back or recovery of individually significant trade receivables, for which bad debt provision had been individually made in 2014 (2013: Nil).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Other receivables

The aging analysis of other receivables:

	2014	2013
Within 1 year	**379,947**	7,176,627
1 to 2 years	**2,962,180**	2,218,545
2 to 3 years	**2,068,545**	818,400
Over 3 years	**928,261**	241,061
	6,338,933	10,454,633

Other receivables are analysed as follows:

	2014	2013
Staff loans	**72,698**	87,281
Transactions with third parties	**6,266,235**	10,367,352
	6,338,933	10,454,633

3. Available-for-sale financial assets

	2014	2013
Available-for-sale equity instruments		
At cost	**373,555**	373,555

Available-for-sale financial assets at cost:

	Book balance				Shareholding percentage	Cash dividend for the year
	Opening balance	Increase during the year	Decrease during the year	Closing balance	(%)	
航天科技投資控股有限公司	201,734	—	—	201,734	5%	—
Others	171,821	—	—	171,821		—
	373,555	—	—	373,555		—

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term receivables

	2014	2013
Loans granted to subsidiaries (Note 1)	5,234,574	4,151,237
Installment payments for the provision of telecommunication system construction projects	296,620	416,717
Less: Bad debt provision for long-term receivables	50,949	50,098
	5,480,245	4,517,856

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 in 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
2014	50,098	851	—	—	50,949
2013	51,647	—	(1,549)	—	50,098

The discount rates adopted for long-term receivables ranged from 6.16% to 17.56%.

Transfer of long-term 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".

5. Long-term equity investments

		2014	2013
Equity method			
Joint ventures	(1)	55,721	55,005
Associates	(2)	337,847	374,183
Cost method			
Subsidiaries	(3)	6,570,188	6,093,653
Less: Provision for impairment in long-term equity investments	(4)	79,345	92,315
		6,884,411	6,430,526

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014

(1) Joint ventures

	Opening balance	Change during the year: Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
普興移動通訊設備有限公司	46,005	–	–	4,480	–	–	–	–	50,485	–
江蘇中興微通信息科技有限公司	9,000	–	–	(3,764)	–	–	–	–	5,236	–
	55,005	–	–	716	–	–	–	–	55,721	–

(2) Associates

	Opening balance	Change during the year: Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興(杭州)科技有限公司	19,501	–	–	511	–	–	–	–	20,012	–
上海中興群力信息科技有限公司	24,851	–	–	(2,424)	–	–	–	–	22,427	–
ZTE Energy Co., Ltd	315,822	–	–	(50,116)	–	–	–	–	265,706	–
ZTE Software Technology (Nanchang) Company Limited	973	–	–	(973)	–	–	–	–	–	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,795	–	–	1,221	–	–	–	–	7,016	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	–	4,764	–
上海中興思秸通訊有限公司	–	17,304	–	(3,515)	–	–	–	–	13,789	–
江蘇中興華易科技發展有限公司	–	5,380	–	(3,724)	–	–	–	–	1,656	–
	374,183	22,684	–	(59,020)	–	–	–	–	337,847	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	2,000,000
ZTEsoft Technology Company Limited	89,921	89,921	–	89,921	80.10%	80.10%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	102,174	102,174	–	102,174	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	3,172
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	321,407	321,407	–	321,407	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83%	83%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	1,800
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT.ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
Telrise (Cayman) Telecom Limited	21,165	21,165	(21,165)	–	100%	100%	–
ZTE Wistron Telecom AB (Europe Research Institute)	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) CorporationSDN.BHD	496	496	–	496	100%	100%	–
ZTE Holdings(Thailand) Co.,Ltd	10	10	–	10	100%	100%	–
ZTE(Thailand) Co.,Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE(USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100%	100%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies,Ltd.	6,582	6,582	–	6,582	100%	100%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014 (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
Closed Joint Stock Company TK Mobile	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	6,317
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	278,700	278,700	(21,300)	257,400	30%	N/A	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
安徽中興通訊傳媒有限責任公司	300	300	–	300	100%	100%	–
深圳市中興高達技術有限公司	45,125	45,125	–	45,125	95%	95%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100%	100%	–
天津中興智聯科技有限公司	32,600	32,600	–	32,600	100%	100%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100%	100%	–
福建海絲路科技有限公司	10,000	10,000	37,500	47,500	95%	95%	–
中興新能源汽車有限責任公司	42,500	–	42,500	42,500	85%	85%	–
西安中興通訊終端科技有限公司	300,000	–	300,000	300,000	100%	100%	–
中興健康科技有限公司	15,000	–	15,000	15,000	50%	50%	–
深圳微品致遠信息科技有限公司	9,000	–	9,000	9,000	100%	100%	–
深圳市中興智谷科技有限公司	15,000	–	15,000	15,000	100%	100%	–
嘉興市興和股權投資合夥企業	100,000	–	100,000	100,000	30%	N/A	–
		6,093,653	476,535	6,570,188			2,011,289

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014 (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
Shenzhen ZTE Mobile Telecom Co., Ltd	17,657	—	17,657
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	—	496
	92,315	(12,970)	79,345

2013

(1) Joint ventures

		Change during the year								
	Opening balance	Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
普興移動通訊設備有限公司	44,559	—	—	1,446	—	—	—	—	46,005	—
江蘇中興微通信息科技有限公司	—	9,000	—	—	—	—	—	—	9,000	—
	44,559	9,000	—	1,446	—	—	—	—	55,005	—

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013 (continued)

(2) Associates

	Opening balance	Change during the year: Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興(杭州)科技有限公司	19,455	–	–	46	–	–	–	–	19,501	–
上海中興群力信息科技有限公司	12,152	–	–	12,699	–	–	–	–	24,851	–
ZTE Energy Co., Ltd	302,793	–	–	22,490	–	–	(9,461)	–	315,822	–
ZTE Software Technology (Nanchang) Company Limited	836	–	–	137	–	–	–	–	973	–
Shenzhen Zhongxing Hetai Hotel investment Management Company Limited	5,548	–	–	247	–	–	–	–	5,795	–
北京億科三友科技發展有限公司	5,932	–	–	(1,168)	–	–	–	–	4,764	–
	349,193	–	–	34,451	–	–	(9,461)	–	374,183	–

Notes to Financial Statements

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

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013 (continued)

(3) Subsidiaries

	Investment Cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	1,000,000
ZTEsoft Technology Company Limited	89,921	89,921	–	89,921	80.10%	80.10%	–
Shenzhen ZNV Technology Company Limited	–	244,827	(244,827)	–	–	–	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	102,174	102,174	–	102,174	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	1,586
Wuxi Zhongxing Optoelectronics Technologies Company Limited	–	6,500	(6,500)	–	–	–	–
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Shenzhen ZTE Mobile Telecom Co., Ltd	321,407	321,407	–	321,407	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	10,500	30,000	40,500	83%	83%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT.ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
Telrise (Cayman) Telecom Limit	21,165	21,165	–	21,165	100%	100%	–
ZTE Wistron Telecom AB (Europe Research Institute)	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) CorporationSDN.BHD	496	496	–	496	100%	100%	–
ZTE Holdings(Thailand) Co.,Ltd	10	10	–	10	100%	100%	–
ZTE(Thailand) Co.,Ltd.(Thailand)	5,253	5,253	–	5,253	100%	100%	–
ZTE(USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation MexicoS.DER.LDEC.V.	42	42	–	42	100%	100%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies,Ltd.	6,582	6,582	–	6,582	100%	100%	–

Notes to Financial Statements

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

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013 (continued)

(3) Subsidiaries (continued)

	Investment Cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding (%)	Percentage of voting rights (%)	Cash dividend for the year
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–
Closed Joint Stock Company TK Mobile	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	–
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	278,700	300,000	(21,300)	278,700	30%	N/A	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	16,000	10,000	6,000	16,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
安徽中興通訊傳媒有限責任公司	300	300	–	300	100%	100%	–
深圳市中興高達技術有限公司	45,125	28,500	16,625	45,125	95%	95%	–
深圳市中興雲服務有限公司	50,000	–	50,000	50,000	100%	100%	–
天津中興智聯科技有限公司	32,600	–	32,600	32,600	100%	100%	–
深圳市中興系統集成技術有限公司	30,000	–	30,000	30,000	100%	100%	–
福建海絲路科技有限公司	10,000	–	10,000	10,000	95%	95%	–
		6,191,055	(97,402)	6,093,653			1,001,586

Notes to Financial Statements

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

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2013 (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
Shenzhen ZTE Mobile Telecom Co., Ltd	17,657	—	17,657
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe research institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE TelecomIndia Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	—	496
	92,315	—	92,315

6. Operating revenue and costs

	2014		2013	
	Revenue	**Cost**	Revenue	Cost
Revenue	**63,084,800**	**64,424,944**	56,490,240	58,376,755
Other income	**13,513,540**	**1,397**	12,461,703	3,633
	76,598,340	**64,426,341**	68,951,943	58,380,388

Notes to Financial Statements

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

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

7. Investment income

	2014	2013
Investment (loss)/income from long-term equity investment under equity method	**(58,304)**	35,898
Investment income from long-term equity investment under cost method	**2,025,896**	1,012,506
Investment income/(loss) from financial assets at fair value through profit and loss for the period of holding	**56,907**	(25,085)
Investment (loss)/income from the disposal of long-term equity investment	**(6,852)**	887,468
	2,017,647	1,910,787

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 2014
Loss from the disposal of non-current assets	(35,661)
Investment loss from disposal of long-term equity investment	(4,181)
Profit 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 realised from disposal of trading financial assets and trading financial liabilities	177,498
Gain from change in fair value of investment properties	130,306
Net amount of other non-operating income and expenses	392,726
Effect of income tax	(99,103)
	561,585

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 2014	Reason
Refund of VAT on software products	2,481,772	In line with national policies and received on an ongoing basis
Refund of individual tax	15,075	In line with national policies and received on an ongoing basis

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2014

	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share Diluted
Net profit attributable to ordinary shareholders of the Company	11.10%	RMB0.77	RMB0.77
Net profit after extraordinary items attributable to ordinary shareholders of the Company	8.74%	RMB0.60	RMB0.60

2013

	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share Diluted
Net profit attributable to ordinary shareholders of the Company	6.17%	RMB0.39	RMB0.39
Net profit after extraordinary items attributable to ordinary shareholders of the Company	0.33%	RMB0.02	RMB0.02

Supplementary Information to Financial Statements (continued)

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

3. 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.

Independent Auditors' Report

EY 安永

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 320 to 439, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditors' Report (continued)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

25 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	**81,471,275**	75,233,724
Cost of sales		**(57,759,027)**	(54,775,081)
Gross profit		**23,712,248**	20,458,643
Other income and gains	5	**4,561,228**	4,905,336
Research and development costs		**(9,008,537)**	(7,383,892)
Selling and distribution expenses		**(10,391,579)**	(10,158,537)
Administrative expenses		**(2,138,123)**	(2,258,739)
Other expenses		**(1,582,298)**	(2,118,997)
Finance costs	7	**(1,561,674)**	(1,650,437)
Share of profits and losses of:			
Joint ventures		**716**	1,446
Associates		**(53,759)**	33,020
PROFIT BEFORE TAX	6	**3,538,222**	1,827,843
Income tax expense	10	**(810,492)**	(394,207)
PROFIT FOR THE YEAR		**2,727,730**	1,433,636
Attributable to:			
Owners of the parent	11	**2,633,571**	1,357,657
Non-controlling interests		**94,159**	75,979
		2,727,730	1,433,636
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Cash flow hedges — effective portion of changes in fair value of hedging instruments arising during the year		**3,965**	5,784
Changes in fair value of available-for-sale investments		**(28,570)**	169,639
Exchange differences on translation of foreign operations		**(295,834)**	(461,725)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(320,439)**	(286,302)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Share of investee results in other comprehensive income under the equity method which will not be reclassified to profit or loss in subsequent periods upon fulfillment of certain conditions		**3,434**	—
Actuarial gains (loss) on defined benefit plans		**(16,599)**	7,040
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**(13,165)**	7,040
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(333,604)**	(279,262)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,394,126**	1,154,374
Attributable to:			
Owners of the parent		**2,269,999**	1,055,746
Non-controlling interests		**124,127**	98,628
		2,394,126	1,154,374
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB0.77**	RMB0.39
Diluted		**RMB0.77**	RMB0.39

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 2014

	Notes	**31 December 2014 RMB'000**	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**7,664,442**	7,697,841
Prepaid land lease payments	17	**1,082,208**	1,064,021
Intangible assets	18	**3,741,514**	3,081,233
Investment properties	16	**2,004,465**	1,855,246
Investments in joint ventures	21	**67,607**	66,891
Investments in associates	22	**393,709**	411,146
Available-for-sale investments	23	**1,739,664**	1,630,271
Long-term trade receivables	26	**266,501**	366,762
Factored long-term trade receivables	27	**1,701,978**	2,311,525
Deferred tax assets	38	**1,284,493**	1,353,033
Pledged deposits	30	**3,744,472**	3,396,897
Long-term prepayments, deposits and other receivables	19	**273,158**	415,700
Total non-current assets		**23,964,211**	23,650,566
CURRENT ASSETS			
Prepaid land lease payments	17	**24,478**	23,649
Inventories	24	**19,592,298**	12,434,352
Amount due from customers for contract works	25	**11,033,468**	12,137,144
Trade and bills receivables	26	**27,239,734**	24,893,928
Factored trade receivables	27	**3,160,705**	3,338,801
Prepayments, deposits and other receivables	28	**6,882,868**	4,874,021
Derivative financial instruments	29	**240,973**	217,454
Pledged deposits	30	**718,306**	708,641
Time deposits with original maturity of over three months	30	**167,428**	76,120
Cash and cash equivalents	30	**17,230,140**	20,118,274
Total current assets		**86,290,398**	78,822,384
CURRENT LIABILITIES			
Trade and bills payables	31	**29,626,088**	24,990,555
Amount due to customers for contract works	25	**3,825,106**	3,682,564
Other payables and accruals	32	**15,598,327**	15,311,007
Derivative financial instruments	29	**70,604**	67,779
Interest-bearing bank borrowings	33	**11,041,149**	15,342,957
Bank advances on factored trade receivables	27	**3,175,432**	3,377,374
Tax payable		**489,141**	557,059
Dividends payable		**8,113**	34,963
Bonds payable	34	**6,131,185**	—
Total current liabilities		**69,965,145**	63,364,258
NET CURRENT ASSETS		**16,325,253**	15,458,126
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,289,464**	39,108,692

continued/...

Consolidated Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

	Notes	**31 December 2014 RMB'000**	31 December 2013 RMB'000
NON-CURRENT LIABILITIES			
Derivative financial instruments	29	**881**	4,286
Bonds payable	34	**—**	6,119,590
Interest-bearing bank borrowings	33	**10,039,687**	5,385,673
Bank advances on factored long-term trade receivables	27	**1,701,978**	2,311,525
Financial guarantee contract	44	**3,689**	3,689
Deferred tax liabilities	38	**159,340**	139,900
Provision for retirement benefits	35	**115,450**	95,806
Other non-current liabilities	36	**1,975,935**	1,422,534
Total non-current liabilities		**13,996,960**	15,483,003
Net assets		**26,292,504**	23,625,689
EQUITY			
Equity attributable to owners of the parent			
Issued capital	39	**3,437,541**	3,437,541
Reserves	41	**20,753,525**	18,991,981
Proposed final dividend	12	**687,508**	103,126
		24,878,574	22,532,648
Non-controlling interests		**1,413,930**	1,093,041
Total equity		**26,292,504**	23,625,689

Hou Weigui
Director

Shi Lirong
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2014

		Attributable to owners of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013												
As previously reported		3,440,078	9,369,499	(16,856)	–	1,587,430	(582,699)	7,705,022	–	21,502,474	1,136,256	22,638,730
Prior year adjustments		–	(45,891)	–	–	–	–	–	–	(45,891)	–	(45,891)
As restated		3,440,078	9,323,608	(16,856)	–	1,587,430	(582,699)	7,705,022	–	21,456,583	1,136,256	22,592,839
Profit for the year		–	–	–	–	–	–	1,357,657	–	1,357,657	75,979	1,433,636
Other comprehensive income for the year:												
Cash flow hedges, net of tax		–	–	5,784	–	–	–	–	–	5,784	–	5,784
Actuarial gains and losses on defined benefit plans		–	7,040	–	–	–	–	–	–	7,040	–	7,040
Changes in fair value of available-for-sale investments		–	149,231	–	–	–	–	–	–	149,231	20,408	169,639
Exchange differences on translation of foreign operations		–	–	–	–	–	(463,966)	–	–	(463,966)	2,241	(461,725)
Total comprehensive income/(loss) for the year		–	156,271	5,784	–	–	(463,966)	1,357,657	–	1,055,746	98,628	1,154,374
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	(110,224)	(110,224)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(1,524)	(1,524)
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	18,895	18,895
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(48,990)	(48,990)
Share Incentive Scheme:	40											
– Equity-settled share option expense		(2,537)	–	–	22,856	–	–	–	–	20,319	–	20,319
Proposed final 2013 dividend	12	–	–	–	–	–	–	(103,126)	103,126	–	–	–
Transfer from retained profits		–	–	–	–	25,765	–	(25,765)	–	–	–	–
At 31 December 2013		3,437,541	9,479,879*	(11,072)*	22,856*	1,613,195*	(1,046,665)*	8,933,788*	103,126	22,532,648	1,093,041	23,625,689

Consolidated Statement of Changes in Equity (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2014

		Attributable to owners of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		3,437,541	9,479,879	(11,072)	22,856	1,613,195	(1,046,665)	8,933,788	103,126	22,532,648	1,093,041	23,625,689
Profit for the year		–	–	–	–	–	–	2,633,571	–	2,633,571	94,159	2,727,730
Other comprehensive income for the year:												
Cash flow hedges, net of tax		–	–	3,965	–	–	–	–	–	3,965	–	3,965
Actuarial gains and losses on defined benefit plans		–	(16,599)	–	–	–	–	–	–	(16,599)	–	(16,599)
Changes in fair value of available-for-sale investments		–	(40,800)	–	–	–	–	–	–	(40,800)	12,230	(28,570)
Share of investee results in other comprehensive income under the equity method which will not be reclassified to profit or loss in subsequent periods upon fulfillment of certain conditions		–	3,090	–	–	–	–	–	–	3,090	344	3,434
Exchange differences on translation of foreign operations of foreign operations		–	–	–	–	–	(313,228)	–	–	(313,228)	17,394	(295,834)
Total comprehensive income/(loss) for the year		–	(54,309)	3,965	–	–	(313,228)	2,633,571	–	2,269,999	124,127	2,394,126
Disposal of fractional shares		–	812	–	–	–	–	–	–	812	–	812
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(7,748)	(7,748)
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	253,500	253,500
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(48,990)	(48,990)
Final 2013 dividend declared		–	–	–	–	–	–	–	(103,126)	(103,126)	–	(103,126)
Share Incentive Scheme:	40									–		–
– Equity-settled share option expense		–	–	–	178,241	–	–	–		–		–
– Unlocking the lock-up shares		–	–	–	–	–	–	–	–	178,241	–	178,241
Proposed final 2014 dividend	12	–	–	–	–	–	–	(687,508)	687,508	–	–	–
Transfer from retained profits		–	–	–	–	155,817	–	(155,817)	–	–	–	–
At 31 December 2014		3,437,541	9,426,382*	(7,107)*	201,097*	1,769,012*	(1,359,893)*	10,724,034*	687,508	24,878,574	1,413,930	26,292,504

* These reserve accounts comprise the consolidated reserves of approximately RMB 20,753,525,000 (2013: RMB18,991,981,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2014

	Notes	**2014 RMB'000**	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,538,222**	1,827,843
Adjustments for:			
Finance costs	7	**1,561,674**	1,650,437
Share of profits and losses of joint ventures		**(716)**	(1,446)
Share of profits and losses of associates		**53,759**	(33,020)
Bank and other interest income	5	**(433,604)**	(355,958)
Dividend income	5	**(32,176)**	(22,240)
Loss on disposal of items of property, plant and equipment	6	**35,661**	18,066
Loss/(gain) on disposal of equity interests	6	**4,181**	(866,677)
Gain on disposal of available-for-sale investments	6	**(13,483)**	(667)
Fair value loss on equity investments held for trading	6	**—**	9,523
Fair value gain on derivative instruments	6	**(17,976)**	(174,829)
(Gain)/loss on disposal of derivative financial instruments	6	**(146,039)**	30,548
Gain on disposal of equity investment at fair value through profit or loss	5	**—**	(20,904)
Depreciation	15	**975,691**	967,593
Recognition of prepaid land lease payments	17	**23,050**	21,138
Amortisation of intangible assets	18	**827,055**	756,485
Write-down of inventories to net realisable value	6	**523,950**	479,704
Impairment of trade receivables	6	**675,522**	1,109,782
Impairment of property, plant and equipment	6	**2,760**	—
Equity-settled share option expense	6	**178,241**	29,707
Changes in fair value of investment properties	6	**(130,306)**	(38,704)
		7,625,466	5,386,381
Increase in inventories		**(7,681,897)**	(1,694,241)
Decrease in the amount due from customers for contract works		**1,103,676**	1,322,264
Increase in trade and bills receivables		**(3,021,328)**	(183,277)
Decrease in long-term trade receivables		**100,261**	841,430
Decrease/(increase) in factored trade receivables		**787,643**	(31,355)
(Increase)/decrease in prepayments, deposits and other receivables		**(2,344,183)**	683,602
Increase/(decrease) in trade and bills payables		**4,636,985**	(4,200,710)
Increase in the amount due to customers for contract works		**142,542**	223,019
Increase/(decrease) in other payables and accruals		**1,985,077**	(104,266)
(Increase)/decrease in other non-current assets		**(7,583)**	70,437
Increase in provision for retirement benefits		**3,045**	2,913
Cash generated from operations		**3,329,704**	2,316,197

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
Cash generated from operations		**3,329,704**	2,316,197
Interest received		**421,190**	341,563
Interest and other finance costs paid		**(1,720,785)**	(1,527,941)
Hong Kong profits tax paid		**(14,058)**	(6,160)
PRC taxes paid		**(260,896)**	(273,049)
Overseas taxes paid		**(515,569)**	(246,180)
Dividends paid		**(103,126)**	—
Dividends paid to non-controlling shareholders		**(34,598)**	(157,567)
Net cash flows from operating activities		**1,101,862**	446,863
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(42,066)**	(199,780)
Purchases of items of property, plant and equipment		**(1,007,144)**	(904,052)
Purchases of intangible assets		**(1,018,394)**	(1,233,094)
Proceeds from disposal of items of property, plant and equipment		**72,015**	5,955
Acquisition of joint ventures		**—**	(18,631)
Capital contribution in associates		**(32,731)**	(22,155)
Purchases of available-for-sale investments		**(220,000)**	(486,556)
Purchases of convertible bonds		**—**	(168,329)
Proceeds from disposal of equity investment at fair value through profit or loss		**—**	56,309
Addition to other receivables		**68,530**	(144,613)
Disposal of subsidiaries		**289,890**	1,318,667
Acquisition of a subsidiary		**71,876**	—
Dividend received from associates		**—**	9,461
Dividend received from available-for-sale investments		**5,593**	9,977
Proceeds from available-for-sale investments		**88,642**	—
Settlement of derivative financial instruments		**154,240**	(30,509)
(Increase)/decrease in time deposits with original maturity of over three months		**(91,308)**	10,488
(Increase)/decrease in pledged bank deposits		**(357,240)**	431,719
(Increase)/decrease in other non-current assets		**(4,191)**	194,169
Net cash flows used in investing activities		**(2,022,288)**	(1,170,974)

continued/...

Consolidated Statement of Cash Flows (continued)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Net cash flows used in investing activities		**(2,022,288)**	(1,170,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Disposal of fractional shares		**812**	—
Repayment of corporate bonds		**—**	(4,000,000)
Capital contribution by non-controlling shareholders		**253,500**	18,895
Acquisition of non-controlling interests		**(48,990)**	(48,990)
New bank loans		**39,500,323**	23,291,362
Repayment of bank loans		**(40,810,074)**	(20,372,924)
(Decrease)/increase in bank advances on factored trade receivables		**(811,489)**	66,510
Net cash flows used in financing activities		**(1,915,918)**	(1,045,147)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,836,344)**	(1,769,258)
Cash and cash equivalents at beginning of year		**20,118,274**	22,659,635
Effect of foreign exchange rate changes, net		**(51,790)**	(772,103)
CASH AND CASH EQUIVALENTS AT END OF YEAR	30	**17,230,140**	20,118,274
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	30	**13,528,462**	17,827,033
Time deposits with original maturity of less than three months	30	**3,701,678**	2,291,241
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**17,230,140**	20,118,274

Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**4,515,175**	4,816,730
Prepaid land lease payments	17	**366,182**	369,058
Intangible assets	18	**986,515**	739,638
Investment properties	16	**1,597,919**	1,496,338
Investments in subsidiaries	20	**11,725,417**	10,152,575
Investments in joint ventures	21	**55,721**	55,005
Investments in associates	22	**287,200**	265,232
Available-for-sale investments	23	**373,555**	373,555
Long-term trade receivables	26	**245,671**	366,619
Factored long-term trade receivables	27	**1,287,954**	1,968,052
Deferred tax assets	38	**674,629**	762,009
Pledged deposits	30	**3,744,472**	3,396,897
Long-term prepayments, deposits and other receivables	19	**135,203**	199,744
Total non-current assets		**25,995,613**	24,961,452
CURRENT ASSETS			
Prepaid land lease payments	17	**9,038**	8,901
Inventories	24	**12,353,923**	7,056,518
Amount due from customers for contract works	25	**7,799,190**	7,029,635
Trade and bills receivables	26	**38,494,719**	36,881,669
Factored trade receivables	27	**1,259,713**	2,084,134
Prepayments, deposits and other receivables	28	**12,004,220**	14,444,035
Derivative financial instruments	29	**53,390**	69,300
Pledged deposits	30	**310,122**	406,892
Cash and cash equivalents	30	**9,715,869**	11,756,438
Total current assets		**82,000,184**	79,737,522
CURRENT LIABILITIES			
Trade and bills payables	31	**43,604,493**	44,451,968
Amount due to customers for contract works	25	**2,654,158**	2,496,029
Other payables and accruals	32	**24,402,769**	21,691,193
Interest-bearing bank borrowings	33	**8,418,581**	8,375,865
Bank advances on factored trade receivables	27	**1,274,440**	2,122,707
Bonds payable	34	**6,131,185**	—
Derivative financial instruments	29	**17,587**	12,575
Tax payable		**111,846**	202,275
Dividends payable		**156**	152
Total current liabilities		**86,615,215**	79,352,764
NET CURRENT (LIABILITIES)/ASSETS		**(4,615,031)**	384,758
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,380,582**	25,346,210

continued/...

Statement of Financial Position (continued)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

	Notes	**31 December 2014 RMB'000**	31 December 2013 RMB'000
NON-CURRENT LIABILITIES			
Bonds payable	34	**—**	6,119,590
Interest-bearing bank borrowings	33	**2,980,100**	1,780,000
Bank advances on factored long-term trade receivables	27	**1,287,954**	1,968,052
Financial guarantee contract	44	**3,689**	3,689
Deferred tax liabilities	38	**158,350**	138,400
Provision for retirement benefits	35	**115,450**	95,806
Other long-term payables		**1,344,787**	1,426,820
Total non-current liabilities		**5,890,330**	11,532,357
Net assets		**15,490,252**	13,813,853
EQUITY			
Issued capital	39	**3,437,541**	3,437,541
Reserves	41	**11,365,203**	10,273,186
Proposed final dividend	12	**687,508**	103,126
Total equity		**15,490,252**	13,813,853

Hou Weigui
Director

Shi Lirong
Director

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

1. CORPORATE INFORMATION

ZTE Corporation (the “Company”) is a limited liability company established in the People’s Republic of China (the “PRC”).

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the 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”), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC) — Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010–2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010–2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010–2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011–2013 Cycle*	*Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

Other than explained below regarding the impact of HKFRS 10, HKAS 32, HKAS 39,, HK(IFRIC)-Int 21, HKFRS 2, HKFRS 3, and HKFRS 13, the adoption of the above standards and interpretation has had no significant financial effect on these financial statements.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss 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 amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) 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 have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

(d) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(e) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(f) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(g) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010–2012 Cycle	*Amendments to a number of HKFRSs*[1]
Annual Improvements 2011–2013 Cycle	*Amendments to a number of HKFRSs*[1]
Annual Improvements 2012–2014 Cycle	*Amendments to a number of HKFRSs*[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2014

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010–2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates or joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to 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;

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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.

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 estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	30 to 50 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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 profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 not more than 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

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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)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in 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 gains or losses.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in 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 if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in 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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, bank advances on factored trade receivables, interest-bearing bank borrowings, a financial guarantee contract, bonds cum warrants, bonds payable, other payables and accruals, factoring costs payable and derivative financial instruments.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in 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)

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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

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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)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

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.

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 profit or loss.

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” above;

(c) from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders’ right to receive payment has been established; and

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis and (ii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Group shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the Group can determine vendor-specific objective evidence or third-party evidence of selling price, the Group shall not ignore information that is reasonably available without undue cost and effort.

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.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to capital reserve through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit pension scheme (continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

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 40 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition or 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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.

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.

Notes to Financial Statements

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

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

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)

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

For instance, the Group sells hardware and post-contract support services on a stand-alone basis and therefore it has evidence to establish VSOE for both the 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 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

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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 final payment from the customer.

For further information on the Group's revenue recognition policies relating to the Group's material revenue streams, please refer to note 2.4 to the financial statements.

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability is recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of these subsidiaries and it is not probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred tax liability for withholding taxes. More details are set out in note 38.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 2014 was approximately RMB7,664,442,000 (2013: RMB7,697,841,000). The carrying amount of intangible assets as at 31 December 2014 was RMB3,741,514,000 (2013: RMB3,081,233,000). More details are set out in notes 15 and 18.

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2014 was approximately RMB27,506,235,000 (2013: RMB25,260,690,000).

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2014 was RMB423,283,000 (2013: RMB591,006,000). The amount of unrecognised tax losses at 31 December 2014 was RMB7,723,300,000 (2013:RMB6,937,787,000). Further details are contained in note 38 to the financial statements.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2014, the best estimate of the carrying amount of capitalised development costs was RMB3,483,505,000 (2013: RMB2,932,148,000).

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed. At 31 December 2014, the carrying amount of inventories was RMB19,592,298,000 (2013: RMB12,434,352,000).

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 16 to the financial statements. The carrying amount of investment properties at 31 December 2014 was RMB2,004,465,000 (2013: RMB1,855,246,000).

Provision for warranties

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 warranties at 31 December 2014 was RMB580,476,000 (2013: RMB490,417,000).

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4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) The networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications.

(b) The handset terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.

(c) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from the measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2014	Networks RMB'000	Handset terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	46,768,231	—	11,553,352	58,321,583
Sale of goods and services	—	23,117,090	32,602	23,149,692
	46,768,231	23,117,090	11,585,954	81,471,275
Segment results	11,366,945	278,804	2,475,014	14,120,763
Bank and other interest income				433,604
Dividend income and unallocated gains				4,127,624
Corporate and other unallocated expenses				(13,529,052)
Finance costs				(1,561,674)
Share of profits and losses of associates and joint ventures				(53,043)
Profit before tax				3,538,222
Segment assets	36,161,825	17,874,444	8,958,415	62,994,684
Investments in joint ventures				67,607
Investment in associates				393,709
Corporate and other unallocated assets				46,798,609
Total assets				110,254,609
Segment liabilities	8,866,579	938,004	2,203,453	12,008,036
Corporate and other unallocated liabilities				71,954,069
Total liabilities				83,962,105
Other segment information:				
Impairment losses recognised in profit or loss	690,136	341,128	170,968	1,202,232
Depreciation and amortisation	1,048,090	518,061	259,645	1,825,796
Capital expenditure*	1,570,928	776,495	389,167	2,736,590

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

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2013	Networks RMB'000	Handset terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Segment revenue:				
Telecommunications system contracts	40,695,724	—	12,473,948	53,169,672
Sale of goods and services	—	21,702,058	361,994	22,064,052
	40,695,724	21,702,058	12,835,942	75,233,724
Segment results	9,208,655	17,946	1,797,837	11,024,438
Bank and other interest income				355,958
Dividend income and unallocated gains				4,549,378
Corporate and other unallocated expenses				(12,485,960)
Finance costs				(1,650,437)
Share of profits and losses of associates and joint ventures				34,466
Profit before tax				1,827,843
Segment assets	33,992,931	10,767,784	10,721,797	55,482,512
Investments in joint ventures				66,891
Investment in associates				411,146
Corporate and other unallocated assets				46,512,401
Total assets				102,472,950
Segment liabilities	8,626,156	800,876	2,720,797	12,147,829
Corporate and other unallocated liabilities				66,699,432
Total liabilities				78,847,261
Other segment information:				
Impairment losses recognised in profit or loss	859,791	458,506	271,189	1,589,486
Depreciation and amortisation	944,029	503,428	297,759	1,745,216
Capital expenditure*	1,453,649	775,196	458,500	2,687,345

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2014	2013
	RMB'000	RMB'000
The PRC (place of domicile)	**40,583,527**	35,635,964
Asia (excluding the PRC)	**12,131,576**	13,849,495
Africa	**6,174,187**	5,866,115
Europe, Americas and Oceania	**22,581,985**	19,882,150
	81,471,275	75,233,724

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

(b) Non-current assets

	2014	2013
	RMB'000	RMB'000
The PRC (place of domicile)	**11,812,310**	11,497,243
Asia (excluding the PRC)	**1,198,456**	990,114
Africa	**375,623**	328,789
Europe, Americas and Oceania	**1,130,718**	882,195
	14,517,107	13,698,341

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

Information about major customers

Revenue from telecommunications systems contracts and terminals from one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2014 in the amount of RMB17,963 million (2013: one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2013 in the amount of RMB11,994 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:

	Note	2014 RMB'000	2013 RMB'000
Revenue			
Telecommunications system contracts		**58,321,583**	53,169,672
Sale of goods		**23,117,090**	21,702,058
Rendering of services		**32,602**	361,994
		81,471,275	75,233,724
Other income			
VAT refunds and other tax subsidies[#]		**2,496,847**	2,314,547
Dividend income		**32,176**	22,240
Bank and other interest income[##]		**433,604**	355,958
Others[###]		**1,290,797**	1,150,880
		4,253,424	3,843,625
Gains			
Gain on disposal of equity investment at fair value through profit or loss		**–**	20,904
Gain on disposal of available-for-sale investments		**13,483**	667
Gain on disposal of subsidiaries		**–**	866,677
Derivative instruments		**164,015**	134,759
Fair value gains on investment properties		**130,306**	38,704
		307,804	1,061,711
		4,561,228	4,905,336

[#] Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

[##] The bank and other interest income for the year ended 31 December 2014 includes the interest income generated from ZTE Group Finance Company Ltd amounted to RMB177,289,000 (2013: RMB151,666,000).

[###] Others mainly represent gains on government grants, contract penalty income and other miscellaneous income.

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6. PROFIT BEFORE TAX

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

	Notes	**2014** **RMB'000**	2013 RMB'000
Cost of goods and services		**48,363,247**	39,205,492
Depreciation	15	**975,691**	967,593
Amortisation of land lease payments	17	**23,050**	21,138
Amortisation of intangible assets other than deferred development costs	18	**86,262**	210,671
Research and development costs:			
Deferred development costs amortised	18	**740,793**	545,814
Current year expenditure		**9,559,894**	7,869,106
Less: Deferred development costs		**(1,292,150)**	(1,031,028)
		9,008,537	7,383,892
Fair value (gains)/losses, net*:			
Derivative instruments	29	**(17,976)**	(174,829)
Equity investments held for trading		**—**	9,523
Investment properties		**(130,306)**	(38,704)
Impairment of trade receivables*	26	**675,522**	1,109,782
Provision for warranties	37	**718,075**	808,942
Write-down of inventories to net realisable value**		**523,950**	479,704
Impairment of items of property, plant and equipment	15	**2,760**	—
Minimum lease payments under operating leases on land and buildings		**705,114**	586,059
Contingent rental income in respect of operating leases	46(a)	**(79,403)**	(114,309)
Auditors' remuneration		**6,674**	6,962
Staff costs (including directors', chief executives' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**11,550,588**	9,652,692
Equity-settled share option expense		**178,241**	29,707
Retirement benefit scheme contributions:			
Defined benefit pension scheme	35	**4,466**	4,178
Defined contribution pension schemes		**927,972**	881,361
		12,661,267	10,567,938

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6. PROFIT BEFORE TAX (continued)

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

	Notes	2014 RMB'000	2013 RMB'000
Foreign exchange loss*		**590,085**	864,721
Loss on disposal of items of property, plant and equipment*		**35,661**	18,066
Gain on disposal of equity investment at fair value through profit or loss		**—**	(20,904)
Loss/(gain) on disposal of subsidiaries*		**4,933**	(866,677)
Gain on deemed disposal of interest in an associate		**(752)**	—
(Gain)/loss on disposal of derivative financial instruments		**(146,039)**	30,548
Gain on disposal of available-for-sale investments		**(13,483)**	(667)

* The fair value losses, impairment of trade receivables, foreign exchange loss, loss on disposal of items of property, plant and equipment and loss/gain on disposal of subsidiaries are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** Write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

		Group	
	Note	2014 RMB'000	2013 RMB'000
Interest on bank loans wholly repayable within five years		**769,871**	767,697
Interest on bank loans wholly repayable over five years		**2,849**	—
Interest on bonds cum warrants		**—**	13,866
Interest on bonds payable	34	**263,595**	263,597
Total interest expense on financial liabilities not at fair value through profit or loss		**1,036,315**	1,045,160
Other finance costs:			
Finance costs on trade receivables factored and bills discounted		**525,359**	605,277
		1,561,674	1,650,437

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**5,224**	4,799
Performance-related bonuses*	**8,142**	1,661
Equity-settled share option expense	**—**	—
Retirement benefit scheme contributions	**29**	17
	13,395	6,477

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2014	2013
	RMB'000	RMB'000
Qu Xiaohui	**130**	130
Wei Wei	**130**	130
Chen Naiwei	**130**	130
Tan Zhenhui	**130**	130
Timothy Alexander Steinert	**—**	65
Zhang Xike	**130**	65
	650	650

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance-related bonuses RMB'000	Share Incentive Scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2014						
Executive directors:						
Yin Yimin	—	457	450	—	9	916
Shi Lirong	—	730	3,091	—	7	3,828
He Shiyou	—	630	—	—	5	635
	—	1,817	3,541	—	21	5,379
Non-executive directors:						
Hou Weigui	—	383	2,018	—	—	2,401
Xie Weiliang	—	100	—	—	—	100
Zhang Junchao	—	100	—	—	—	100
Wang Zhanchen	—	100	—	—	—	100
Dong Lianbo	—	100	—	—	—	100
Zhang Jianheng	—	100	—	—	—	100
	—	883	2,018	—	—	2,901
	—	2,700	5,559	—	—	8,280
Supervisors:						
Xie Daxiong	—	605	2,018	—	2	2,625
He Xuemei	—	368	150	—	2	520
Zhou Huidong	—	409	215	—	2	626
Xu Weiyan	—	492	200	—	2	694
	—	1,874	2,583	—	8	4,465

Notes to Financial Statements

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance-related bonuses RMB'000	Share Incentive Scheme RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2013						
Executive directors:						
Yin Yimin	—	376	400	—	3	779
Shi Lirong	—	570	100	—	3	673
He Shiyou	—	556	100	—	3	659
	—	1,502	600	—	9	2,111
Non-executive directors:						
Hou Weigui	—	327	475	—	—	802
Xie Weiliang	—	100	—	—	—	100
Zhang Junchao	—	100	—	—	—	100
Wang Zhanchen	—	100	—	—	—	100
Dong Lianbo	—	100	—	—	—	100
Zhang Jianheng	—	100	—	—	—	100
		827	475	—	—	1,302
	—	2,329	1,075	—	9	3,413
Supervisors:						
Zhang Taifeng	—	327	119	—	—	446
Xie Daxiong	—	535	356	—	2	893
He Xuemei	—	264	10	—	2	276
Zhou Huidong	—	325	11	—	2	338
Wang Yan	—	—	—	—	—	—
Xu Weiyan	—	369	90	—	2	461
Chang Qing	—	—	—	—	—	—
	—	1,820	586	—	8	2,414

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 (2013: 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 (2013: five) highest paid employees who are neither a director nor chief executive or a supervisor of the Company are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**5,141**	11,935
Performance-related bonuses	**20,670**	8,928
Retirement benefit scheme contributions	**—**	—
	25,811	20,863

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	
	2014	2013
RMB2,000,001 to RMB3,000,000	**—**	2
RMB3,000,001 to RMB4,000,000	**—**	1
RMB4,000,001 to RMB5,000,000	**4**	—
RMB5,000,001 to RMB6,000,000	**—**	1
RMB6,000,001 to RMB7,000,000	**—**	1
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.

10. INCOME TAX

	2014	2013
	RMB'000	RMB'000
Group:		
Current — Hong Kong	**105,473**	50,586
Current — Mainland China	**461,709**	402,177
Current — Overseas	**155,330**	75,872
Deferred (note 38)	**87,980**	(134,428)
Total tax charge for the year	**810,492**	394,207

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10. INCOME TAX (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law 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 2014 to 2016.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxing New Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2014 was 10%.

Nanjing Zhongxingxin Software Company Limited, recognised as a software enterprise in December 2009, has been entitled to enterprise income tax exemption in the first and second profitable years and a 50% reduction in enterprise income tax from the third to the fifth years pursuant to Document Cai Shui (2008) No. 1. The current year is its fifth profitable year and a 50% reduction in the enterprise income tax rate of 25% is applicable.

Shenzhen Zhongxing ICT Company Limited, was subject to an enterprise income tax rate of 15% from 2013 to 2015 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2014 was 10%.

Shenzhen Zhongxing Mobile Technology Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise registered in Shenzhen Nanshan Hi-tech Industrial Park.

ZTE Microelectronics Technology Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important IC Design Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2014 was 10%.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise in the Shanghai Pudong New Area.

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10. INCOME TAX (continued)

Shanghai Zhongxing Software Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2014 was 10%.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTEsoft Technology Company Limited, recognised as a national-grade hi-tech enterprise, was granted an Important Software Enterprise under the National Planning Layout for the years from 2013 to 2014. The enterprise income tax rate applied in 2014 was 10%.

Xi'an Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2012 to 2014 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% in 2014 as a national-encouraged industry enterprise.

Nanjing ZTEsoft Software Technology Company Limited was subject to an enterprise income tax rate of 15% from 2013 to 2015 as a national-grade hi-tech enterprise.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2014		2013	
	RMB'000	**%**	RMB'000	%
Profit before tax	**3,538,222**		1,827,843	
Tax at the statutory tax rate	**884,556**	**(25.0)**	456,961	25.0
Lower tax rate for specific provinces or enacted by local authority	**(260,192)**	**(7.4)**	(428,015)	(23.4)
Adjustments in respect of current tax of previous periods	**66,171**	**1.9**	(51,790)	(2.8)
Profits and losses attributable to associates and joint ventures	**13,164**	**0.4**	(8,708)	(0.5)
Income not subject to tax	**(165,899)**	**(4.7)**	(336,735)	(18.4)
Expenses not deductible for tax	**172,618**	**4.9**	120,598	6.6
Tax losses utilised from previous years	**(57,029)**	**(1.6)**	(59,620)	(3.3)
Tax losses of subsidiaries not recognised	**157,103**	**4.4**	701,516	38.4
Tax charge at the Group's effective rate	**810,492**	**22.9**	394,207	21.6

The share of tax attributable to associates amounting to RMB408,000 (2013: RMB18,732,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

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11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a profit of approximately RMB1,616,476,000 (2013: RMB340,024,000) which has been dealt with in the financial statements of the Company (note 41(b)).

12. DIVIDEND

	2014	2013
	RMB'000	RMB'000
Proposed final - RMB0.2(2013: RMB0.03) per ordinary share	**687,508**	103,126

Details of proposed final dividend for the year are set out in Note 53, the profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amount is computed by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 3,437,541,000 (2013: 3,437,541,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit 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 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 calculations of basic and diluted earnings per share are as follows:

	2014	2013
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**2,633,571**	1,357,657

	Number of shares	
	2014	2013
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**3,437,541**	3,437,541
Share options	**2,543**	1,767
Adjusted weighted average number of ordinary shares in issue	**3,440,084**	3,439,308

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14. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association, the Company and certain of its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations applicable to these companies, to their respective statutory surplus reserves (the "SSR") until this reserves reach 50% of the registered capital of these companies. Part of the SSR may be capitalised as these companies' share capital, provided that the remaining balances after the capitalisation are not less than 25% of the registered capital of these companies.

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Land 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 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	5,597,110	38,699	6,432,249	312,797	177,423	12,558,278
Accumulated depreciation and impairment	(739,006)	(17,749)	(3,938,410)	(165,272)	—	(4,860,437)
Net carrying amount	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841
At 1 January 2014, net of accumulated depreciation and impairment	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841
Additions	148,717	34,365	875,457	21,708	284,966	1,365,213
Disposals	(15,056)	(18,217)	(151,859)	(7,164)	(194,462)	(386,758)
Depreciation provided during the year	(167,286)	(12,007)	(766,475)	(29,923)	—	(975,691)
Transfers	—	—	5,449	—	(5,449)	—
Exchange realignments	(11,397)	(432)	(21,341)	(618)	385	(33,403)
Impairment	—	—	(2,760)	—	—	(2,760)
At 31 December 2014, net of accumulated depreciation and impairment	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442
At 31 December 2014:						
Cost	5,714,487	29,592	6,720,548	301,683	262,863	13,029,173
Accumulated depreciation and impairment	(901,405)	(4,933)	(4,288,238)	(170,155)	—	(5,364,731)
Net carrying amount	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

			Group			
	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	4,713,201	88,155	6,392,844	348,045	824,387	12,366,632
Accumulated depreciation and impairment	(610,901)	(49,563)	(3,528,152)	(166,988)	—	(4,355,604)
Net carrying amount	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028
At 1 January 2013, net of accumulated depreciation and impairment	4,102,300	38,592	2,864,692	181,057	824,387	8,011,028
Additions	52,390	8,059	443,924	14,770	529,369	1,048,512
Disposals	(89,472)	(11,270)	(53,259)	(11,289)	(54,528)	(219,818)
Transfer to investment property (note 16)	—	—	—	—	(130,384)	(130,384)
Depreciation provided during the year	(140,814)	(13,717)	(777,315)	(35,747)	—	(967,593)
Transfers	955,158	—	35,622	—	(990,780)	—
Exchange realignments	(21,458)	(714)	(19,825)	(1,266)	(641)	(43,904)
At 31 December 2013, net of accumulated depreciation and impairment	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841
At 31 December 2013:						
Cost	5,597,110	38,699	6,432,249	312,797	177,423	12,558,278
Accumulated depreciation and impairment	(739,006)	(17,749)	(3,938,410)	(165,272)	—	(4,860,437)
Net carrying amount	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	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 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	3,778,233	4,850	4,035,205	239,209	14,393	8,071,890
Accumulated depreciation and impairment	(628,487)	(3,961)	(2,502,411)	(120,301)	—	(3,255,160)
Net carrying amount	3,149,746	889	1,532,794	118,908	14,393	4,816,730
At 1 January 2014, net of accumulated depreciation and impairment	3,149,746	889	1,532,794	118,908	14,393	4,816,730
Additions	—	6,388	466,293	18,230	7,141	498,052
Disposals	—	(6,388)	(54,283)	(4,693)	(9,625)	(74,989)
Transfer to investment property (note 16)	—	—	(4,725)	—	—	(4,725)
Transfers to subsidiaries	—	—	(28,767)	(804)	—	(29,571)
Depreciation provided during the year	(111,955)	(889)	(553,089)	(24,389)	—	(690,322)
Transfers	—	—	—	—	—	—
At 31 December 2014, net of accumulated depreciation and impairment	3,037,791	—	1,358,223	107,252	11,909	4,515,175
At 31 December 2014:						
Cost	3,778,233	—	4,118,779	234,461	11,909	8,143,382
Accumulated depreciation and impairment	(740,442)	—	(2,760,556)	(127,209)	—	(3,628,207)
Net carrying amount	3,037,791	—	1,358,223	107,252	11,909	4,515,175

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	3,733,107	4,850	3,907,081	259,588	54,714	7,959,340
Accumulated depreciation and impairment	(526,601)	(2,991)	(2,110,108)	(123,887)	—	(2,763,587)
Net carrying amount	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753
At 1 January 2013, net of accumulated depreciation and impairment	3,206,506	1,859	1,796,973	135,701	54,714	5,195,753
Additions	26,128	—	333,636	10,127	69,257	439,148
Disposals	—	—	(20,683)	(4,487)	—	(25,170)
Transfer to investment property (note 16)	—	—	—	—	(57,975)	(57,975)
Transfers to subsidiaries	—	—	(17,694)	(174)	—	(17,868)
Depreciation provided during the year	(101,886)	(970)	(592,116)	(22,259)	—	(717,231)
Transfers	18,998	—	32,678	—	(51,603)	73
At 31 December 2013, net of accumulated depreciation and impairment	3,149,746	889	1,532,794	118,908	14,393	4,816,730
At 31 December 2013:						
Cost	3,778,233	4,850	4,035,205	239,209	14,393	8,071,890
Accumulated depreciation and impairment	(628,487)	(3,961)	(2,502,411)	(120,301)	—	(3,255,160)
Net carrying amount	3,149,746	889	1,532,794	118,908	14,393	4,816,730

As at 31 December 2014, none of the Group's buildings (2013: RMB683,394,000) were pledged to secure bank borrowings granted to the Group (note 33).

As at 31 December 2014, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Xi'an and Hengyang, the PRC, with net carrying values of approximately RMB658,489,000 (2013: RMB 670,505,000), RMB1,841,137,000 (2013: RMB1,869,263,000), RMB199,201,000 (2013: RMB203,160,000), RMB861,494,000 (2013: RMB875,696,000) and RMB55,863,000 (2013: RMB63,141,000), respectively.

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16. INVESTMENT PROPERTIES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Fair value				
Carrying amount at 1 January	**1,855,246**	1,686,158	**1,496,338**	1,381,593
Addition	**18,913**	—	**4,725**	—
Transfer from owner-occupied properties Property, plant and equipment (note 15)	**—**	130,384	**—**	57,975
Net gain from a fair value adjustment (note 6)	**130,306**	38,704	**96,856**	56,770
Carrying amount at 31 December	**2,004,465**	1,855,246	**1,597,919**	1,496,338
Completed investment properties	**2,004,465**	1,855,246	**1,597,919**	1,496,338
Investment properties under construction	**—**	—	**—**	—
	2,004,465	1,855,246	**1,597,919**	1,496,338

The Group's investment properties are situated in Mainland China and are held under a medium term lease.

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2014 based on valuations performed by 國眾聯資產評估土地房地產估價有限公司, an independent professionally qualified valuer, at RMB2,004,465,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third parties under operating leases, further summary details of which are included in note 48 to the financial statements.

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16. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Commercial properties	**—**	**—**	**2,004,465**	**2,004,465**

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	—	—	1,855,246	1,855,246

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

	Commercial properties RMB'000
Carrying amount at 1 January 2013	1,686,158
Additions	130,384
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	38,704
Carrying amount at 31 December 2013	1,855,246
Carrying amount at 1 January 2014	1,855,246
Additions	18,913
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	130,306
Carrying amount at 31 December 2014	2,004,465

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16. INVESTMENT PROPERTIES (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average 2014	2013
Commercial properties	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	**RMB24 to RMB477**	RMB24 to RMB477
		Rent growth (p.a.)	**1% to 5%**	1% to 5%
		Long-term vacancy rate	**5%**	5%
		Discount rate	**6%**	6%

Valuations were based on either: (i) the 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) the 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) the capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties on the balance sheet date.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the long-term vacancy rate and the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long-term vacancy rate.

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17. PREPAID LAND LEASE PAYMENTS

	Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount at 1 January	**1,087,670**	909,028
Additions during the year	**45,558**	209,671
Disposals	**(3,492)**	(9,891)
Recognised during the year	**(23,050)**	(21,138)
Carrying amount at 31 December	**1,106,686**	1,087,670
Current portion	**(24,478)**	(23,649)
Non-current portion	**1,082,208**	1,064,021

All the leasehold lands are held under medium term leases and are situated in Mainland China.

	Company	
	2014	2013
	RMB'000	RMB'000
Carrying amount at 1 January	**377,959**	385,464
Additions during the year	**6,846**	1,720
Recognised during the year	**(9,585)**	(9,225)
Carrying amount at 31 December	**375,220**	377,959
Current portion	**(9,038)**	(8,901)
Non-current portion	**366,182**	369,058

All the leasehold lands are held under medium term leases and are situated in Mainland China.

As at 31 December 2014, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya, Nanjing and Xi'an in the PRC, with a net carrying value of approximately RMB565,604,000 (2013: RMB647,083,000).

As at 31 December 2014, a subsidiary of the Group pledged its land use right with a net carrying value of RMB79,963,000 (2013: RMB23,650,000) as security for a bank loan (note 33).

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18. INTANGIBLE ASSETS

	Group				
	Technology know-how	Computer software	Franchise	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014					
Cost at 1 January 2014, net of accumulated amortisation and impairment	**4,837**	**137,612**	**6,636**	**2,932,148**	**3,081,233**
Additions	**1,650**	**149,658**	**76,439**	**1,391,830**	**1,619,577**
Retirements and disposals	**—**	**(32,561)**	**—**	**(99,680)**	**(132,241)**
Amortisation provided during the year	**(1,101)**	**(70,760)**	**(14,401)**	**(740,793)**	**(827,055)**
At 31 December 2014	**5,386**	**183,949**	**68,674**	**3,483,505**	**3,741,514**
At 31 December 2014:					
Cost	**8,255**	**484,992**	**409,022**	**5,864,735**	**6,767,004**
Accumulated amortisation and impairment	**(2,869)**	**(301,043)**	**(340,348)**	**(2,381,230)**	**(3,025,490)**
Net carrying amount	**5,386**	**183,949**	**68,674**	**3,483,505**	**3,741,514**
31 December 2013					
Cost at 1 January 2013, net of accumulated amortisation and impairment	5,858	126,043	46,109	2,446,934	2,624,944
Additions	1,906	148,863	109,678	1,168,715	1,429,162
Retirements and disposals	(1,677)	(77,024)	—	(137,687)	(216,388)
Amortisation provided during the year	(1,250)	(60,270)	(149,151)	(545,814)	(756,485)
At 31 December 2013	4,837	137,612	6,636	2,932,148	3,081,233
At 31 December 2013:					
Cost	6,605	464,168	332,583	4,572,586	5,375,942
Accumulated amortisation and impairment	(1,768)	(326,556)	(325,947)	(1,640,438)	(2,294,709)
Net carrying amount	4,837	137,612	6,636	2,932,148	3,081,233

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18. INTANGIBLE ASSETS (continued)

	Company			
	Computer software	Franchise	Deferred development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014				
Cost at 1 January 2014, net of accumulated amortisation and impairment	**73,988**	**—**	**665,650**	**739,638**
Additions	**49,568**	**76,580**	**425,073**	**551,221**
Retirements and disposals	**(2,617)**	**—**	**—**	**(2,617)**
Amortisation provided during the year	**(43,840)**	**(13,789)**	**(244,098)**	**(301,727)**
At 31 December 2014	**77,099**	**62,791**	**846,625**	**986,515**
At 31 December 2014:				
Cost	**335,421**	**401,377**	**1,662,761**	**2,399,559**
Accumulated amortisation and impairment	**(258,322)**	**(338,586)**	**(816,136)**	**(1,413,044)**
Net carrying amount	**77,099**	**62,791**	**846,625**	**986,515**
31 December 2013				
Cost at 1 January 2013, net of accumulated amortisation and impairment	99,704	44,696	595,205	739,605
Additions	31,769	104,009	218,680	354,458
Retirements and disposals	(9,036)	—	—	(9,036)
Amortisation provided during the year	(48,449)	(148,705)	(148,235)	(345,389)
At 31 December 2013	73,988	—	665,650	739,638
At 31 December 2013:				
Cost	364,971	324,796	1,237,689	1,927,456
Accumulated amortisation and impairment	(290,983)	(324,796)	(572,039)	(1,187,818)
Net carrying amount	73,988	—	665,650	739,638

19. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits for purchase of property, plant and equipment	**223,158**	217,270	**135,203**	199,744
Other long-term receivable	**50,000**	198,430	**—**	—
	273,158	415,700	**135,203**	199,744

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20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**6,570,188**	6,093,653
Less: Impairment#	**(79,345)**	(92,315)
Loans to subsidiaries	**5,234,574**	4,151,237
	11,725,417	10,152,575

\# An impairment was recognised for certain unlisted investments in subsidiaries, with a carrying amount of RMB995,866,000 (before deducting the impairment loss) (2013: RMB1,017,031,000) because the respective subsidiaries were loss-making.

The Company's balances of trade and bills receivables, other receivables, trade and bills payables and other payables with the subsidiaries are disclosed in notes 26, 28, 31 and 32 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 part of the Company's investments in its subsidiaries.

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20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal Activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited # (i) (深圳市中興康訊電子有限公司)	The PRC/Mainland China	RMB1,755,000,000	100	—	Manufacture and sale of electronic components
ZTEsoft Technology Company Limited # (ii) (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") # (i) (深圳市中興軟件有限責任公司)	The PRC/Mainland China	RMB51,080,000	100	—	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing New Software")# (i) (iii) (西安中興新軟件有限責任公司)	The PRC/Mainland China	RMB600,000,000	100	—	Development of telecommunications software systems and provision of related consultancy services
ZTE (Hangzhou) Company Limited # (i) (iii) (中興通訊(杭州)有限責任公司)	The PRC/Mainland China	RMB100,000,000	100	—	Telecommunications and related equipment manufacturing
ZTE Mobile Tech Company Limited # (i) (iii) (深圳市中興移動通信有限公司)	The PRC/Mainland China	RMB79,166,000	90	—	Development, manufacture and sale of telecommunications related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HK$995,000,000	100	—	Marketing and sale of telecommunications system equipment and provision of management services
Shenzhen Zhongxing ICT Company Limited # (i) (iii) (深圳中興網信科技有限公司)	The PRC/Mainland China	RMB60,000,000	90	—	Design and sale of corporate management hard/software products
ZTE Technology & Service Company Limited # (i) (深圳市中興通訊技術服務有限責任公司)	The PRC/Mainland China	RMB50,000,000	90	10	Development, manufacture and sale of telecommunications related products
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited # (i) (iii) (上海中興通訊技術有限責任公司)	The PRC/Mainland China	RMB10,000,000	90	—	Development, manufacture and sale of computer software and telecommunications system equipment
ZTE Group Finance Company Limited # (i) (iii) (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.

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20. INVESTMENTS IN SUBSIDIARIES (continued)

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.

21. INVESTMENTS IN JOINT VENTURES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**—**	—	**55,721**	55,005
Share of net assets	**44,202**	39,587	**—**	—
Goodwill on acquisition	**23,405**	27,304	**—**	—
	67,607	66,891	**55,721**	55,005

The Group's balances of trade receivables with joint ventures are disclosed in note 26 to the financial statements. The amounts due from joint ventures are unsecured and interest-free.

Particulars of the Group's joint ventures are as follows:

Name	Place of incorporation/ registration and business	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	EUR446,915	50	50	50	Provision of telecommunications solutions and related consultancy services
Puxing Mobile Tech Company Limited# (普興移動通訊設備有限公司)	The PRC/Mainland China	RMB128,500,000	34	50	50	Provision of telecommunications solutions and related consultancy services
Jiangsu Zhongxing Weitong Information and Technology Company Limited (江蘇中興微通信息科技有限公司)	The PRC/Mainland China	RMB18,000,000	50	50	50	Provision of telecommunications solutions and related consultancy services
Pengzhong Xingsheng	Republic of Uzbekistan	USD3,160,000	50	50	50	Sale of telecommunications related products

The English name of this joint venture is directly translated from its Chinese name.

The investments in Bestel and Pengzhong Xingsheng are held by a wholly-owned subsidiary of the Company. They have no operating activities in 2014.

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21. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures:

	2014 RMB'000	2013 RMB'000
Share of the joint ventures' assets and liabilities:		
Assets	**386,169**	125,818
Liabilities	**341,967**	86,231
Net assets	**44,202**	39,587
Share of the joint ventures' results:		
Revenue	**349,533**	123,465
Profit before tax	**716**	1,446
Tax	**—**	—
Profit after tax	**716**	1,446

22. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2014 **RMB'000**	2013 RMB'000	**2014** **RMB'000**	2013 RMB'000
Unlisted shares, at cost	**—**	—	**296,974**	275,006
Share of net assets	**393,709**	411,146	**—**	—
	393,709	411,146	**296,974**	275,006
Provision for impairment	**—**	—	**(9,774)**	(9,774)
	393,709	411,146	**287,200**	265,232

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 26 and 31 to the financial statements, respectively.

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22. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Place of registration and business	Nominal value of issued and paid-up capital/ registered capital	Percentage of ownership interest attributable to the Group	Principal activities
ZTE Energy Co., Ltd. # * (中興能源有限公司)	The PRC/Mainland China	RMB1,290,000,000	23.26	Research, development and sale of biological energy and new energy
Sizhuo Zhongxing Hangzhou Technology Co., Ltd. # * (思卓中興(杭州)科技有限公司)	The PRC/Mainland China	USD7,000,000	49.00	Research and sale of communication device
Shenzhen Zhongxing Hetai Hotel Investment and Management Co., Ltd. # * (深圳市中興和泰酒店投資管理有限公司)	The PRC/Mainland China	RMB30,000,000	18.00	Hotel management service
Xingtian Communication Technology (Tianjin) Co., Ltd.# * (興天通訊技術(天津)有限公司)	The PRC/Mainland China	RMB20,000,000	30.00	Research and sale of communication devices

The English names of these associates are directly translated from their Chinese names.

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The year end date of the financial statements of the above associates is coterminous with that of the Group.

All the above associates have been accounted for using the equity method in the consolidated financial statements.

The following table illustrates the aggregate financial information of the Group's associates extracted from their management accounts:

	2014 RMB'000	2013 RMB'000
Assets	**5,324,735**	4,493,255
Liabilities	**3,459,004**	2,510,576
Revenues	**1,540,577**	1,235,129
Profit	**(234,475)**	118,190

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23. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity investment, at market value	**319,470**	364,479	**—**	—
Unlisted equity investments, at cost	**1,420,194**	1,265,792	**373,555**	373,555
	1,739,664	1,630,271	**373,555**	373,555

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 2014, the above listed equity investment with a carrying amount of RMB319,470,000 (2013: RMB364,479,000) was stated at market value. During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB28,570,000 (2013: gain of RMB169,639,000). Certain unlisted equity investments with a carrying amount of RMB1,420,194,000 (2013: RMB1,265,792,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

24. INVENTORIES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**2,889,256**	3,472,053	**106,936**	934,485
Work in progress	**1,268,544**	897,061	**773,570**	324,204
Finished goods	**4,031,086**	2,563,775	**1,887,617**	794,848
Contract works in progress	**11,403,412**	5,501,463	**9,585,800**	5,002,981
	19,592,298	12,434,352	**12,353,923**	7,056,518

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25. TELECOMMUNICATIONS SYSTEM CONTRACTS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due from customers for contract works	**11,033,468**	12,137,144	**7,799,190**	7,029,635
Amount due to customers for contract works	**(3,825,106)**	(3,682,564)	**(2,654,158)**	(2,496,029)
	7,208,362	8,454,580	**5,145,032**	4,533,606
Contract costs incurred plus recognised profits	**64,203,987**	41,905,232	**44,324,433**	26,109,712
Less: Recognised losses to date	**340,199**	105,908	**204,058**	18,066
Less: Progress billings	**56,655,426**	33,344,744	**38,975,343**	21,558,040
	7,208,362	8,454,580	**5,145,032**	4,533,606

26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**31,902,826**	29,094,859	**41,929,625**	40,070,718
Impairment	**(4,396,591)**	(3,834,169)	**(3,189,235)**	(2,822,430)
	27,506,235	25,260,690	**38,740,390**	37,248,288
Current portion	**(27,239,734)**	(24,893,928)	**(38,494,719)**	(36,881,669)
Long-term portion	**266,501**	366,762	**245,671**	366,619

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year depending on customers' creditworthiness except for certain overseas customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

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26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**22,660,674**	19,962,075	**25,617,463**	24,162,287
7 to 12 months	**3,004,833**	2,695,215	**4,136,945**	3,301,829
1 to 2 years	**1,619,968**	2,407,100	**4,301,273**	5,798,481
2 to 3 years	**220,760**	196,300	**1,951,059**	2,098,737
Over 3 years	**—**	—	**2,733,650**	1,886,954
	27,506,235	25,260,690	**38,740,390**	37,248,288
Current portion of trade and bills receivables	**(27,239,734)**	(24,893,928)	**(38,494,719)**	(36,881,669)
Long-term portion	**266,501**	366,762	**245,671**	366,619

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**3,834,169**	2,979,412	**2,822,430**	2,085,831
Impairment losses recognised (note 6)	**758,331**	1,167,414	**414,912**	840,290
Amount written off as uncollectible	**(113,100)**	(255,025)	**(48,107)**	(103,691)
Impairment losses reversed (note 6)	**(82,809)**	(57,632)	**—**	—
At 31 December	**4,396,591**	3,834,169	**3,189,235**	2,822,430

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB588,727,000 (2013: RMB RMB590,288,000) with a carrying amount before provision of RMB588,727,000 (2013:RMB590,288,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**2,799,769**	3,933,387	**4,056,186**	5,301,870
Less than one year past due	**22,720,064**	19,590,411	**22,623,878**	17,444,113
	25,519,833	23,523,798	**26,680,064**	22,745,983

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26. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The balances due from subsidiaries, the controlling shareholder, joint ventures, associates and other related companies included in the above are as follows:

	Group		**Company**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**26,778,531**	25,020,281
The controlling shareholder	**1,096**	1,031	**—**	—
Joint ventures	**418,061**	81,048	**417,976**	80,971
Associates	**6,963**	10,553	**2,770**	—
Other related companies	**157,968**	94,862	**142,027**	89,928
	584,088	187,494	**27,341,304**	25,191,180

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

The Group has not pledged trade receivables, but has pledged bills receivables of RMB44,028,000 (2013: RMB750,000,000 and RMB102,000,000) to secure the bank borrowings (note 33).

27. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group entered into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them were derecognised in their entirety but for which the Group retains continuing involvement. More details are set in note 42.

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27. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES (continued)

In 2008, 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 stipulate 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 2014, under the above arrangements, accounts receivable due from the customer amounted to RMB6,559,107,000 (2013: RMB6,837,218,000) among which RMB5,247,286,000 (2013: RMB5,469,775,000) 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 RMB1,311,821,000 (2013: RMB1,367,443,000) 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**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**682,778**	751,405	**66,692**	29,328
Deposits and other receivables	**6,008,637**	3,798,163	**3,931,324**	2,170,516
Due from subsidiaries	**—**	—	**5,519,076**	10,273,927
Dividends receivable	**—**	62,518	**2,487,128**	1,970,264
Interest receivable	**28,068**	15,654	**—**	—
Advances and loans	**2,913**	246,281	**—**	—
Other receivables*	**160,472**	—	**—**	—
	6,882,868	4,874,021	**12,004,220**	14,444,035

* On 15 January 2013, ZTE (HK) Limited ("ZTE HK"), a wholly-owned subsidiary of ZTE subscribed a convertible bond of HKD201,500,000, which is matured on 15, January 2015. The other receivable represents amortized cost of the convertible bond.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The balances due from subsidiaries, associates and other related companies included in the above are as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**9,752,035**	12,992,908
Associates	**13,832**	6,208	**5,842**	—
Other related companies	**3,373**	3,199	**12,993**	—
	17,205	9,407	**9,770,870**	12,992,908

The amounts due from subsidiaries and other related companies are unsecured, non-interest-bearing and are repayable on demand.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**186,858**	**(64,904)**	173,263	(61,659)
Conversion right on convertible notes	**54,115**	**—**	44,191	—
Interest rate swaps	**—**	**(6,581)**	—	(10,406)
	240,973	**(71,485)**	217,454	(72,065)
Portion classified as non-current:				
Interest rate swaps	**—**	**(881)**	—	(4,286)
Current portion	**240,973**	**(70,604)**	217,454	(67,779)

	Company			
	2014		2013	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**53,390**	**(17,587)**	69,300	(12,575)

Forward currency contracts

The carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well-known banks in Mainland China and Hong Kong with A- or above credit ratings.

The Group has entered into these contracts to manage its exchange rate exposure. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Gains on the fair value amounting to RMB17,976,000 (2013: RMB174,829,000) were recognised in profit or loss during the year.

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29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Conversion right on convertible notes

On 15 January 2013, ZTE HK subscribed for 112,000,000 ordinary shares and convertible bonds of HKD201,500,000. The conversion right on convertible notes represents the fair value of the convertible right.

Interest rate swaps — cash flow hedges

Interest rate swaps are designated as hedging instruments in respect of expected interest payments for floating rate debts incurred by the Group.

The terms of the interest rate swaps have been negotiated to match the terms of the debts. The cash flow hedges relating to expected interest payments were assessed to be highly effective and a net gain of RMB3,965,000 was included in the hedging reserve as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Total fair value gain	**3,965**	5,784
Net gain on cash flow hedges	**3,965**	5,784

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**21,860,346**	24,299,932	**13,770,463**	15,560,227
Less:				
Pledged deposits — non-current	**(3,744,472)**	(3,396,897)	**(3,744,472)**	(3,396,897)
Pledged deposits — current	**(718,306)**	(708,641)	**(310,122)**	(406,892)
Time deposits with original maturity of over three months	**(167,428)**	(76,120)	**—**	—
Cash and cash equivalents	**17,230,140**	20,118,274	**9,715,869**	11,756,438
Time deposits with original maturity of less than three months	**(3,701,678)**	(2,291,241)	**—**	—
Unrestricted bank balances and cash	**13,528,462**	17,827,033	**9,715,869**	11,756,438

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB9,915,647,000 (2013: RMB9,707,024,000). 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.

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30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

Pledged deposits included the deposits as at 31 December 2014 of RMB377,959,000 (2013: RMB288,821,000) with the People's Bank of China, at a statutory reserve of 15% (2013: 15%) for RMB on customer deposits held by ZTE Group Finance Company Limited.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

31. 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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**29,175,980**	24,351,477	**43,182,819**	44,153,242
7 to 12 months	**298,251**	144,334	**175,837**	96,562
1 to 2 years	**14,258**	181,730	**169,714**	191,386
2 to 3 years	**114,309**	258,957	**71,765**	5,217
Over 3 years	**23,290**	54,057	**4,358**	5,561
	29,626,088	24,990,555	**43,604,493**	44,451,968

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Subsidiaries	**—**	—	**35,431,654**	38,271,764
The controlling shareholder	**53,879**	56,507	**—**	—
Joint ventures	**20,669**	1,433	**—**	—
Associates	**2,171**	56	**—**	—
Other related companies	**179,761**	216,768	**1,741**	1,515
	256,480	274,764	**35,433,395**	38,273,279

The balances are unsecured, non-interest-bearing and are repayable on demand.

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

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32. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Note	**2014**	2013	**2014**	2013
		RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance		**3,305,520**	2,776,366	**3,411,519**	2,896,512
Other payables		**7,885,871**	8,890,302	**4,477,869**	7,437,198
Factoring costs payable		**71,233**	84,084	**71,233**	84,084
Advance receipts for staff housing scheme		**66,168**	66,168	**66,168**	66,168
Accruals		**3,687,565**	3,002,003	**1,504,679**	1,193,723
Provision for warranties	37	**580,476**	490,417	**357,109**	317,404
Due to the controlling shareholder		**888**	1,308	**308**	308
Due to subsidiaries		**—**	—	**14,513,331**	9,695,474
Due to other related companies		**606**	359	**553**	322
		15,598,327	15,311,007	**24,402,769**	21,691,193

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder, subsidiaries and other related companies are unsecured, non-interest-bearing and are repayable on demand.

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33. INTEREST-BEARING BANK BORROWINGS

	Group					
	2014			2013		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**1.4436–7.2000**	**2015**	**4,007,770**	1.8707–14.25	2014	10,392,010
Bank loans — unsecured	**3MLIBOR+2.90**	**2015**	**930,075**	Libor/Hibor+1.9	2014	508,644
Bank loans — unsecured	**6MLIBOR+1.80-3.45**	**2015**	**3,664,496**	Libor+1–4	2014	818,169
Bank loans — guaranteed*	**—**	**—**	**—**	2	2014	2,132,563
Bank loans — guaranteed	**—**	**—**	**—**	3	2014	609,168
Bank loans — secured	**3**	**2015**	**544,028**	3-5	2014	120,291
Bank loans — unsecured	**COF+2.1**	**2015**	**155,012**	Sibor+2.2	2014	152,422
Bank loans — unsecured	**Libor+1.5–1.8**	**2015**	**1,219,166**	3MLibor+2	2014	609,690
Bank loans — unsecured	**LRP+5**	**2015**	**500,000**	—	—	—
Bank loans — unsecured	**—**	**2015**	**2,000**	—	—	—
Bank loans — secured	**:ibor+4**	**2015**	**18,602**	—	—	—
			11,041,149			15,342,957
Non-current						
Bank loans — secured	**6.77**	**2021**	**44,000**	6.65	2015	269,500
Bank loans — secured	**—**	**—**	**—**	6.65	2015	500,500
Bank loans — guaranteed*	**Libor+1.95**	**2016**	**2,779,037**	—	—	—
Bank loans — guaranteed*	**Libor+2.25**	**2018**	**2,736,550**	3	2016	2,725,977
Bank loans — guaranteed	**5**	**2016**	**1,500,000**	—	—	—
Bank loans — unsecured	**6MLIBOR+3.6**	**2017**	**1,240,100**	—	2015	2,000
Bank loans — unsecured	**5.5350–6.1500**	**2016**	**1,740,000**	Libor+Margin1.5	2016	107,696
Bank loans — unsecured	**—**	**—**	**—**	5.53-5.85	2016	1,780,000
			10,039,687			5,385,673
			21,080,836			20,728,630

* Excludes the effects of related interest rate swaps as further detailed in note 29 to the financial statements.

	Company					
	2014			2013		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**2.05–6.30**	**2015**	**3,324,010**	2.34–6.6	2014	8,375,865
Bank loans — unsecured	**3MLIBOR+2.90**	**2015**	**930,075**	—	—	—
Bank loans — unsecured	**6MLIBOR+1.80–3.45**	**2015**	**3,664,496**	—	—	—
Bank loans — unsecured	**LRP+5**	**2015**	**500,000**	—	—	—
			8,418,581			8,375,865
Non-current						
Bank loans — unsecured	**5.535–6.1500**	**2016**	**1,740,000**	4.2–6.15	2016	1,780,000
Bank loans — unsecured	**6MLIBOR+3.6**	**2017**	**1,240,100**	—	—	—
			2,980,100			1,780,000
			11,398,681			10,155,865

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33. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**11,041,149**	15,342,957	**8,418,581**	8,375,865
In the second year	**6,019,037**	772,000	**1,740,000**	—
In the third to fifth years, inclusive	**3,976,650**	4,613,673	**1,240,100**	1,780,000
Over five years	**44,000**	—	**—**	—
	21,080,836	20,728,630	**11,398,681**	10,155,865

Notes:

Except for bank loans of approximately RMB7,962,393,000 (2013: RMB7,369,950,000) 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 RMB7,837,798,000 (2013: RMB5,462,393,000), all borrowings of the Group bear interest at floating interest rates.

The Group's secured bank loans and banking facilities are secured by:

	Group	
	2014	2013
	RMB'000	RMB'000
Real estate properties	**—**	683,394
Land use rights	**79,963**	23,650
Pledged bank deposits	**4,462,778**	4,105,538
Trade receivables	**—**	750,000
Bills receivable*	**544,028**	102,000
	5,086,769	5,664,582

* Bills receivables of RMB500,000,000 were issued by the Company.

Certain of the Group's bank loans are guaranteed by:

	Group	
	2014	2013
	RMB'000	RMB'000
Entities within the Group	**7,015,587**	5,467,708

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33. INTEREST-BEARING BANK BORROWINGS (continued)

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 2014		31 December 2013	
					Foreign	RMB	Foreign	RMB
				(%)	currency	equivalent	currency	equivalent
Bank of China	2011.8.15	2016.8.15	USD	Approx. 3%	**448,196**	**2,779,037**	447,109	2,725,977
Bank of China	2011.7.20	2014.7.20	USD	Approx. 2%	**–**	**–**	349,778	2,132,563
Bank of China	2014.8.13	2018.7.18	USD	Approx. 2%	**441,343**	**2,736,550**	99,914	609,168

34. BONDS PAYABLE

	Opening balance	Increase during the year	Decrease during the year	Closing balance
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014	**6,119,590**	**263,595**	**(252,000)**	**6,131,185**
31 December 2013	6,107,993	263,597	(252,000)	6,119,590

On 13 June 2012, the Company issued 3-year unsecured corporate bonds for a total amount of RMB6 billion. The corporate bonds carry a coupon interest rate of 4.2% with bond interest payable annually on 13 June. As at the issue date, the net book value of the liabilities amounted to RMB5,965,212,000 after the deduction of issue expenses of RMB 34,788,000.

	2014	2013
	RMB'000	RMB'000
Carrying amount at 1 January	**6,119,590**	6,107,993
Increase during the year	**—**	—
Interest expense (note 7)	**263,595**	263,597
Interest paid	**(252,000)**	(252,000)
Carrying amount at 31 December	**6,131,185**	6,119,590

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35. 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 2014 in accordance with *HKAS 19 Employee Benefits*. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2014	2013
Discount rate (%)	**4.00%**	4.75%
Expected rate of salary increases (%)	**5.50%**	5.50%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2014 is shown below:

	Increase in rate %	Increase/ (decrease) in net defined benefit obligation	Decrease in rate %	Increase/ (decrease) in net defined benefit obligation
Discount rate	0.25%	(4,019)	0.25%	4,197
Future salary increase	1.00%	13,854	1.00%	(12,700)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in profit or loss in respect of the plan is follows:

	2014 **RMB'000**	2013 RMB'000
Interest cost	**4,466**	4,178
Net benefit expenses	**4,466**	4,178
Recognised in administrative expenses	**4,466**	4,178

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35. PROVISION FOR RETIREMENT BENEFITS (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2014 RMB'000	2013 RMB'000
At 1 January	**95,806**	99,932
Interest cost	**4,466**	4,178
Pension payments made	**(1,421)**	(1,264)
Benefit expenses recognised in other comprehensive income	**16,599**	(7,040)
At 31 December	**115,450**	95,806

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2014	**1 January 2014 RMB'000**	**Net interest RMB'000**	**Sub-total included in profit or loss RMB'000**	**Benefit paid RMB'000**	**Actuarial changes arising from changes in financial assumptions RMB'000**	**Experience adjustments RMB'000**	**Sub-total included in other comprehensive income RMB'000**	**31 December 2014 RMB'000**
Defined benefit obligations	**95,806**	**4,466**	**4,466**	**(1,421)**	**11,555**	**5,044**	**16,599**	**115,450**
Benefit liability	**95,806**	**4,466**	**4,466**	**(1,421)**	**11,555**	**5,044**	**16,599**	**115,450**

2013	1 January 2013 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2013 RMB'000
Defined benefit obligations	99,932	4,178	4,178	(1,264)	(7,422)	382	(7,040)	95,806
Benefit liability	99,932	4,178	4,178	(1,264)	(7,422)	382	(7,040)	95,806

36. OTHER NON-CURRENT LIABILITIES

Group

	2014 RMB'000	2013 RMB'000
Factoring costs payable	**204,435**	257,540
Deferred income for staff housing scheme	**1,140,351**	1,164,994
Other non-current liabilities	**631,149**	—
	1,975,935	1,422,534

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37. PROVISION FOR WARRANTIES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**490,417**	246,692	**317,404**	127,805
Additional provision	**718,075**	808,942	**620,088**	661,866
Amounts utilised during the year	**(628,016)**	(565,217)	**(580,383)**	(472,267)
At 31 December	**580,476**	490,417	**357,109**	317,404

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.

38. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets and liabilities:				
At 1 January	**1,213,133**	1,078,705	**623,609**	443,107
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**(87,980)**	134,428	**(107,330)**	180,502
Deferred tax credited to other comprehensive income	**—**	—	**—**	—
At 31 December	**1,125,153**	1,213,133	**516,279**	623,609

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38. DEFERRED TAX (continued)

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Unrealised profits arising on consolidation	**126,540**	117,100	**—**	—
Provision against inventories	**123,081**	131,522	**44,783**	49,442
Foreseeable contract losses	**30,609**	18,232	**30,609**	2,710
Amortisation of intangible assets	**130,897**	87,447	**41,558**	24,969
Provision for warranties	**98,325**	66,064	**58,349**	52,395
Provision for retirement benefits	**17,348**	14,370	**17,318**	14,370
Undeducted payables	**153,361**	166,264	**—**	—
Equity-settled share options	**31,192**	4,456	**31,192**	4,456
Tax losses	**423,283**	591,006	**300,963**	457,095
Overseas tax	**149,857**	156,572	**149,857**	156,572
	1,284,493	1,353,033	**674,629**	762,009
Deferred tax liabilities:				
Revaluation gain on owner-occupied properties	**(159,340)**	(139,900)	**(158,350)**	(138,400)
	1,125,153	1,213,133	**516,279**	623,609

Deferred tax assets have not been recognised in respect of the following item:

	2014	2013
	RMB'000	RMB'000
Tax losses	**7,723,300**	6,937,787

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2014	2013
	RMB'000	RMB'000
2014	**—**	20,328
2015	**—**	—
2016	**1,265,245**	1,265,245
After 2016	**6,458,055**	5,652,214
	7,723,300	6,937,787

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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39. ISSUED CAPITAL

	2014 RMB'000	2013 RMB'000
Restricted shares		
Senior management shares	**6,771**	7,226
	6,771	7,226
Unrestricted shares		
RMB ordinary shares	**2,801,185**	2,800,730
Overseas listed foreign shares	**629,585**	629,585
	3,430,770	3,430,315
	3,437,541	3,437,541

40. SHARE OPTION INCENTIVE SCHEME

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by the State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the resolution of the Share Option Incentive Scheme at the General Meeting convened in accordance with the Administrative Measures on Share Incentives of Listed Company (Trial) had been recognised with no objection by the China Securities Regulatory Commission. On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at the Eighth Meeting of the Sixth Session of the Board of Directors. The Share Incentive Scheme was considered and approved at the Third Extraordinary General Meeting of 2013 convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013. Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the scheme at the exercise price, subject to the conditions of exercise. The source of two shares under the scheme shall be shares of the Company issued to the participants by the Company by way of placing. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the company's shares or the actual controller of the Company and their spouse or blood relative.

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40. SHARE OPTION INCENTIVE SCHEME (continued)

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent three exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69 per share. The share options not exercisable due to failure to fulfill the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity (ROE);

(2) The growth rate of net profit attributable the shareholders of the listed company (The growth rate of net profit).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	From 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

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40. SHARE OPTION INCENTIVE SCHEME (continued)

The fair value of the share options granted in 2014 amounted to RMB524,023,000, among which the share option expenses recognised by the Company in 2014 amounted to RMB178,241,000.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Proposed dividend (RMB)		0.18	0.18	0.18
Volatility (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
Demission rate	Directors and senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

41. 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 323 and 324 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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41. RESERVES (continued)

(b) Company

	Notes	Issued capital	Capital reserve	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
At 31 December 2012 and 1 January 2013		3,440,078	9,277,002	925,674	(17,138)	(178,203)	–	13,447,413
Final 2012 dividend declared		–	–	–	–	–		–
Total comprehensive income for the year	11	–	7,040	–	(943)	340,024	–	346,121
Share Incentive Scheme:	40							–
– Equity-settled share option expense		(2,537)	22,856	–	–	–	–	20,319
– Unlocking the lock-up shares		–	–	–	–	–	–	–
Proposed final 2013 dividend		–	–	–	–	(103,126)	103,126	–
Transfer from retained profits		–	–	25,765	–	(25,765)	–	–
At 31 December 2013 and 1 January 2014		3,437,541	9,306,898	951,439	(18,081)	32,930	103,126	13,813,853
Final 2013 dividend declared		–	–	–	–	–	(103,126)	(103,126)
Total comprehensive income for the year	11	–	(16,599)	–	595	1,616,476	–	1,600,472
Share Incentive Scheme:	40							
– Equity-settled share option expense		–	178,241	–	–	–	–	178,241
– Unlocking the lock-up shares		–	–	–	–	–	–	–
Disposal of fractional share		–	812	–	–	–	–	812
Proposed final 2014 dividend		–	–	–	–	(687,508)	687,508	–
Transfer from retained profits		–	–	155,817	–	(155,817)	–	–
At 31 December 2014		3,437,541	9,469,352	1,107,256	(17,486)	806,081	687,508	15,490,252

42. TRANSFERS OF FINANCIAL ASSETS

Bills receivable

Financial assets that are derecognised in their entirety

Bills discount

At 31 December 2014, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB294,779,000. 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 is 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.

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42. TRANSFERS OF FINANCIAL ASSETS (continued)

Bills receivable (continued)

Financial assets that are derecognised in their entirety (continued)

Bills discount (continued)

During the year ended 31 December 2014, the Group has not recognised any gain or loss on the date of transfer of the Discounted Bills (2013: Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Trade receivables factoring

As part of its normal business, the Group entered into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them were derecognised in their entirety but for which the Group retains continuing involvement.

Transferred trade receivables that are not derecognised in their entirety

According to some factoring arrangements, the Group is exposed to default risks of the trade debtors after the transfer and accordingly, it continued to recognise the full carrying amounts of the trade receivables. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2014 amounted to RMB2,915,814,000.

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 the 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 2014 amounted to RMB9,547,043,000. The continuing involvement and associated liabilities are summarised as follows:

	RMB'000
Carrying amount of assets that continue to be recognised	1,946,869
Carrying amount of liabilities that continue to be recognised	1,961,596

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43. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with borrowings to customers	**63,701**	46,311	**7,609,189**	6,143,211
Guarantees given to banks in respect of performance bonds	**7,458,959**	7,022,304	**7,458,959**	7,022,304
	7,522,660	7,068,615	**15,068,148**	13,165,515

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB47,229,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued their award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB20,306,000) be paid by the Company. As at the balance sheet date, the Company had made provisions in respect of the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated. No additional provision in respect of the litigation was made.

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43. CONTINGENT LIABILITIES (continued)

(c) In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People's Court ("Nanshan 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 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 filed an appeal against the aforesaid judgement with the Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth's case with the Shenzhen Intermediate Court in May 2014, the Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth was not required to pay the penalty payment of RMB12.817 million to the Company.

In October and November 2009, the Company further instituted two lawsuits with the Nanshan 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 instituted a lawsuit with the Shenzhen Intermediate 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 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, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. China Construction Fifth filed an appeal with the Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company.

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43. CONTINGENT LIABILITIES (continued)

(c) (continued)

In July 2014, China Construction Fifth instituted a lawsuit with the Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

(d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. (UTE) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed 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 to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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

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43. CONTINGENT LIABILITIES (continued)

(f) On 29 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA. a wholly-owned subsidiary of ZTE. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February, 2015, the United States Court of Appeals for the Federal Circuit upheld the ITC's final results.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict, and the appeal process has currently been suspended. On 28 October 2014, the jury of the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. Court hearing in respect of the remaining patent involved has been postponed to April 2015. The Company and ZTE USA have engaged a legal counsel to conduct active defense of the case and will consider whether to file an appeal based on the verdicts on the four patents involved in the litigation.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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43. CONTINGENT LIABILITIES (continued)

(g) On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interest and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB223 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements. On the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State. ZTE Brazil also pointed out that the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil was notified of the ruling by the primary administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State. The Company had made a provision of BRL5.22 million (equivalent to approximately RMB14.77 million) in respect of the said litigation.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim can be reliably estimated. No additional provision in respect of the litigation was made.

(h) In May 2012, the U.S. Flashpoint Technology Inc. filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's product that had allegedly infringed its patent rights from entering the United States. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 1 October 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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43. CONTINGENT LIABILITIES (continued)

(i) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the ITC case included other companies in the industry. 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 product that had allegedly infringed its patent rights from entering the United States. In the case filed with the Federal District Court, damages for losses and payments of legal fees were demanded of the defendants, although no specific amount of compensation was named. The litigation procedure at the Federal District Court has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. Currently, the litigation procedure at the Federal District Court of California has been resumed. There has been no substantial progress in the litigation process.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

(j) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB72,530,000). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy.

On 30 November 2012, 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 RMB192 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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43. CONTINGENT LIABILITIES (continued)

(k) In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH ("ZTE Service"), a wholly-owned subsidiary of the Company. As the UMTS products of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

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

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

In June 2014, Vringo filed a patent litigation with the Court of Bucharest, Romania against the Company and ZTE Romania SRL ("ZTE Romania"), a wholly-owned subsidiary of the Company, pleading for the LTE products of the Company and ZTE Romania supporting Circuit Switched Fall Back functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In September 2014, the Court of Bucharest issued a provisional injunction order against ZTE Romania in respect of LTE products, and ZTE Romania filed an appeal to the Court of Appeal of Bucharest. In October 2014, the Court of Appeal of Bucharest ruled to suspend the provisional injunction order.

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43. CONTINGENT LIABILITIES (continued)

(k) (continued)

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

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

44. FINANCIAL GUARANTEE CONTRACT

The Group has recognised a financial guarantee contract of RMB3,689,000 for an independent customer with a maximum amount of RMB63,701,000 including the 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.

45. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 33 to the financial statements.

46. 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 operating lease rental income of RMB79,403,000 (2013: RMB114,309,000) has been recognised under this arrangement.

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 48 years.

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46. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**282,519**	389,625	**90,346**	187,978
In the second to fifth years, inclusive	**234,178**	639,658	**28,460**	305,514
After five years	**2,163**	57,696	**2,163**	14,466
	518,860	1,086,979	**120,969**	507,958

47. COMMITMENTS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Land and buildings	**214,356**	264,314	**50,278**	27,714
Investments in associates	**5,223**	17,304	**—**	—
	219,579	281,618	**50,278**	27,714
Authorised, but not contracted for:				
Land and buildings	**21,897,474**	21,566,513	**—**	—

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48. 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	**2014 RMB'000**	2013 RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**260,991**	227,609
Sales of finished goods	(b)	**3,800**	2,658
Rental expense	(c)	**8,827**	8,827
Associates:			
Purchases of raw materials	(a)	**74,309**	71,445
Sales of finished goods	(b)	**52,564**	17,250
Rental income	(e)	**12,804**	4,533
Interest expense	(f)	**75**	56
Interest income	(f)	**110**	4,762
Joint ventures:			
Purchases of raw materials	(a)	**21,111**	—
Sales of finished goods	(b)	**530,684**	109,868
Rental income	(e)	**258**	85
Entities significantly influenced by key management personnel of the Group:			
Purchases of raw materials	(a)	**782,107**	447,549
Sales of finished goods	(b)	**61**	105
Rental expense	(d)	**42,931**	44,221
Rental income	(e)	**2,146**	2,146
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**279,823**	266,301
Sales of finished goods	(b)	**2,930**	6,970
Rental income	(e)	**780**	696
The substantial shareholder of the controlling shareholder:			
Purchases of raw materials	(a)	**164**	—

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.

Notes to Financial Statements

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48. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Notes: (continued)

(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 RMB130 to RMB500 per square metre.

(e) The rental income was earned from RMB12.74 to RMB150 per square metre.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	2,575	—	—
Entities significantly influenced by key management personnel of the Group	11,704	—	—

(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 amounts of total purchases from related parties in the following year were expected as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	1,100,000	—	—
An entity significantly influenced by key management personnel of the Group	900,000	—	—
Associates	121,192	63,000	79,000

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48. 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	42,018	164	—
Joint ventures	258	258	258
Entities significantly influenced by key management personnel of the Group	2,146	—	—
The substantial shareholder of the controlling shareholder	1,129	1,129	470

(iv) A subsidiary of the Group entered into a series of agreements with related parties to sell products and services. The maximum amount of total sale to 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
Associates	29,000	30,000	31,000

(III) Outstanding balances with related parties

(i) Details of the Group's trade balances with the controlling shareholder, joint ventures, associates and other related parties as at the end of the reporting period are disclosed in notes 26 and 31 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 32 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2014 RMB'000	2013 RMB'000
Short-term employee benefits	**46,157**	19,022
Post-employment benefits	**6**	40
Equity-settled share option expense	**—**	—
Total compensation paid to key management personnel	**46,163**	19,062

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48. RELATED PARTY TRANSACTIONS (continued)

(IV) Compensation of key management personnel of the Group (continued)

The related party transactions in respect of purchases of raw materials amounting to approximately RMB541 million (2013: RMB494 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 (IX) Significant Connected Transactions of the Group (2) Continuing Connected Transactions under the Hong Kong Listing Rules" of the Annual Report.

49. 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:

2014	**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	—	—	1,739,664	1,739,664
Trade and bills receivables/long-term trade receivables	—	27,506,235	—	27,506,235
Factored trade receivables/factored long-term trade receivables	—	4,862,683	—	4,862,683
Financial assets included in prepayments, deposits and other receivables	—	2,209,677	—	2,209,677
Pledged deposits	—	4,462,778	—	4,462,778
Time deposits with original maturity of over three months	—	167,428	—	167,428
Cash and cash equivalents	—	17,230,140	—	17,230,140
Derivative financial instruments	240,973	—	—	240,973
	240,973	56,438,941	1,739,664	58,419,578

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49. 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: (continued)

2014			**Group**		
Financial liabilities	**Financial liabilities at fair value through profit or loss**	**Financial liabilities at amortised cost**	**Derivatives designated as hedging instruments in effective hedges**	**Other financial liabilities**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	**—**	**29,626,088**	**—**	**—**	**29,626,088**
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	**—**	**4,877,410**	**—**	**—**	**4,877,410**
Financial liabilities included in other payables and accruals	**—**	**6,342,602**	**—**	**—**	**6,342,602**
Interest-bearing bank borrowings	**—**	**21,080,836**	**—**	**—**	**21,080,836**
Financial guarantee contract	**—**	**—**	**—**	**3,689**	**3,689**
Bonds payable	**—**	**6,131,185**	**—**	**—**	**6,131,185**
Factoring costs payable	**—**	**204,435**	**—**	**—**	**204,435**
Derivative financial instruments	**64,904**	**—**	**6,581**	**—**	**71,485**
	64,904	**68,262,556**	**6,581**	**3,689**	**68,337,730**

2013		Group		
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	—	—	1,630,271	1,630,271
Trade and bills receivables/long-term trade receivables	—	25,260,690	—	25,260,690
Factored trade receivables/factored long-term trade receivables	—	5,650,326	—	5,650,326
Financial assets included in prepayments, deposits and other receivables	—	1,865,075	—	1,865,075
Equity investment at fair value through profit or loss	—	—	—	—
Pledged deposits	—	4,105,538	—	4,105,538
Time deposits with original maturity of over three months	—	76,120	—	76,120
Cash and cash equivalents	—	20,118,274	—	20,118,274
Derivative financial instruments	217,454	—	—	217,454
	217,454	57,076,023	1,630,271	58,923,748

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49. 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: (continued)

2013			Group		
Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	—	24,990,555	—	—	24,990,555
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	5,688,899	—	—	5,688,899
Financial liabilities included in other payables and accruals	—	7,791,444	—	—	7,791,444
Interest-bearing bank borrowings	—	20,728,630	—	—	20,728,630
Financial guarantee contract	—	—	—	3,689	3,689
Bonds payable	—	6,119,590	—	—	6,119,590
Factoring costs payable	—	257,540	—	—	257,540
Derivative financial instruments	61,659	—	10,406	—	72,065
	61,659	65,576,658	10,406	3,689	65,652,412

2014		**Company**		
Financial assets	**Financial assets at fair value through profit or loss** **RMB'000**	**Loans and receivables** **RMB'000**	**Available-for-sale financial assets** **RMB'000**	**Total** **RMB'000**
Available-for-sale investments	**—**	**—**	**373,555**	**373,555**
Trade and bills receivables/long-term trade receivables	**—**	**38,740,390**	**—**	**38,740,390**
Factored trade receivables/factored long-term trade receivables	**—**	**2,547,667**	**—**	**2,547,667**
Financial assets included in prepayments, deposits and other receivables	**—**	**9,450,398**	**—**	**9,450,398**
Derivative financial instruments	**53,390**	**—**	**—**	**53,390**
Pledged deposits	**—**	**4,054,594**	**—**	**4,054,594**
Cash and cash equivalents	**—**	**9,715,869**	**—**	**9,715,869**
	53,390	**64,508,918**	**373,555**	**64,935,863**

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49. 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: (continued)

2014	**Company**		
Financial liabilities	**Financial liabilities at amortised cost RMB'000**	**Other financial liabilities RMB'000**	**Total RMB'000**
Trade and bills payables	**43,604,493**	**—**	**43,604,493**
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	**2,562,394**	**—**	**2,562,394**
Financial liabilities included in other payables and accruals	**22,474,813**	**—**	**22,474,813**
Interest-bearing bank borrowings	**11,398,681**	**—**	**11,398,681**
Financial guarantee contract	**—**	**3,689**	**3,689**
Bonds payable	**6,131,185**	**—**	**6,131,185**
Factoring costs payable	**204,435**	**—**	**204,435**
Derivative financial instruments	**17,587**	**—**	**17,587**
	86,393,588	**3,689**	**86,397,277**

2013	Company			
Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available- for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	—	373,555	373,555
Trade and bills receivables/long-term trade receivables	—	37,248,288	—	37,248,288
Factored trade receivables/factored long-term trade receivables	—	4,052,186	—	4,052,186
Financial assets included in prepayments, deposits and other receivables	—	12,444,443	—	12,444,443
Derivative financial instruments	69,300	—	—	69,300
Pledged deposits	—	3,803,789	—	3,803,789
Cash and cash equivalents	—	11,756,438	—	11,756,438
	69,300	69,305,144	373,555	69,747,999

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49. 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: (continued)

2013	Company		
Financial liabilities	Financial liabilities at amortised cost RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	44,451,968	—	44,451,968
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	4,090,759	—	4,090,759
Financial liabilities included in other payables and accruals	20,180,066	—	20,180,066
Interest-bearing bank borrowings	10,155,865	—	10,155,865
Financial guarantee contract	—	3,689	3,689
Bonds payable	6,119,590	—	6,119,590
Factoring costs payable	257,540	—	257,540
Derivative financial instruments	12,575	—	12,575
	85,268,363	3,689	85,272,052

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at 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:

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50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the non-current portion of pledged deposits, trade receivables, deposits and other receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2014 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of a listed equity investment is based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

Group

As at 31 December 2014	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**319,470**	**—**	**—**	**319,470**
Derivative financial instruments	**—**	**240,973**	**—**	**240,973**
	319,470	**240,973**	**—**	**560,443**

As at 31 December 2013	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	364,479	—	—	364,479
Derivative financial instruments	—	217,454	—	217,454
	364,479	217,454	—	581,933

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50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

Company

As at 31 December 2014	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**53,390**	**—**	**53,390**

As at 31 December 2013	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	69,300	—	69,300

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets (2013: Nil).

Liabilities measured at fair value:

Group

As at 31 December 2014	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(71,485)**	**—**	**(71,485)**

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50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

Group (continued)

As at 31 December 2013	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(72,065)	—	(72,065)

Company

As at 31 December 2014	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(17,587)**	**—**	**(17,587)**

As at 31 December 2013	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(12,575)	—	(12,575)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2013: Nil).

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51. 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 2014, 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.

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 rate 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 notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2014, after taking into account the effect of the interest rate swaps, approximately 40% (2013: 30%) 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	Increase/ (decrease) in equity *
2014	**0.25%**	**(31,557)**	**5,591**
	(0.25%)	**31,557**	**(5,591)**
2013	0.25%	(36,641)	4,065
	(0.25%)	36,641	(4,065)

* Excluding retained profits

Notes to Financial Statements

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51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD, EUR and a certain portion of the bank loans is denominated in USD. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes a rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There would be no change in other components of equity.

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in profit before tax RMB'000**
2014		
If RMB weakens against USD	**3%**	**38,204**
If RMB strengthens against USD	**(3%)**	**(38,204)**
If RMB weakens against EUR	**5%**	**136,696**
If RMB strengthens against EUR	**(5%)**	**(136,696)**

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2013		
If RMB weakens against USD	3%	37,160
If RMB strengthens against USD	(3%)	(37,160)
If RMB weakens against EUR	5%	185,118
If RMB strengthens against EUR	(5%)	(185,118)

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.

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51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis, by counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

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:

2014	Group					
	On demand	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	11,193,023	6,431,576	1,368,816	3,048,910	22,042,325
Trade and bills payables	19,244,400	10,381,688	—	—	—	29,626,088
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	3,254,431	638,663	389,151	735,447	5,017,692
Other payables	6,342,602	—	—	—	—	6,342,602
Bonds payable	—	6,252,000	—	—	—	6,252,000
Factoring costs payable	—	—	73,327	63,889	189,065	326,281
Derivative financial instruments	—	71,175	896	—	—	72,071
Financial guarantee contract	50,000	—	—	—	—	50,000
	25,637,002	31,152,317	7,144,462	1,821,856	3,973,422	69,729,059

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51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

2013	Group					
	On demand	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	15,508,467	839,379	5,023,976	—	21,371,822
Trade and bills payables	16,492,534	8,498,021	—	—	—	24,990,555
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	3,377,374	729,055	546,622	1,120,002	5,773,053
Other payables	7,707,360	84,084	—	—	—	7,791,444
Bonds payable	—	252,000	6,252,000	—	—	6,504,000
Factoring costs payable	—	—	73,327	63,889	189,065	326,281
Derivative financial instruments	—	67,779	4,270	46	—	72,095
Financial guarantee contract	50,000	—	—	—	—	50,000
	24,249,894	27,787,725	7,898,031	5,634,533	1,309,067	66,879,250

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 2014 and 31 December 2013.

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	
	2014	2013
	RMB'000	RMB'000
Interest-bearing borrowings	**21,080,836**	20,728,630
Bonds payable	**6,131,185**	6,119,590
Bank advances on factored trade receivables and long-term trade receivables	**4,877,410**	5,688,899
Total interest-bearing liabilities	**32,089,431**	32,537,119
Total equity	**26,292,504**	23,625,689
Total equity and interest-bearing liabilities	**58,381,935**	56,162,808
Gearing ratio	**55.0%**	57.9%

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52. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB358,069,000 (2013: RMB144,460,000) is by assuming directly related liabilities.

53. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the "Resolution on the Proposed Registration and Issue of Perpetual Medium Term Note of the Company" considered and approved at the First Extraordinary General Meeting of 2014 of the Company held on 15 October 2014, approval was granted to the Company for the issue of perpetual medium term note (hereinafter referred to as the "Medium Term Note") with a size of not more than RMB9 billion. On 27 January 2015, the issue of the 2015 first tranche Medium Term Notes with an amount of RMB 6 billion was completed. On 6 February 2015, the issue of the 2015 second tranche Medium Term Notes with an amount of RMB1.5 billion was completed.

Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB2 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 3,437,541,278 shares as at 31 December 2014, and 2 bonus shares will also be issued for every 10 shares held by shareholders whose name appear in the register as at the Record Date through an increase in registered capital by way of capitalisation of capital reserves. The profit distribution proposal is subject to approval by the annual general meeting of the Company.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2015.

Documents Available for Inspection

(I) Text of the 2014 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 2014 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; and

(V) Articles of Association.

By order of the Board

Hou Weigui
Chairman

26 March 2015

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