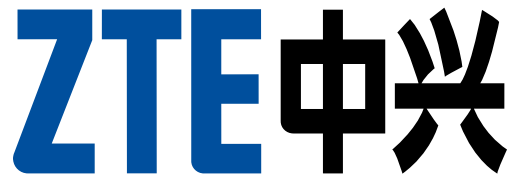


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ZTE CORPORATION
中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

2014 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that this interim report summary and results announcement does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

The 2014 interim report (the “Interim Report”) containing all information required to be presented in interim reports in accordance with Appendix 16 to the Rules (the “Hong Kong Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) will be published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company’s website (<http://www.zte.com.cn>) in due course.

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

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

1.4 The interim financial reports of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2014 were unaudited.

1.5 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 the Interim Report.

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

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Abbreviated name of bond (code)	12中興01(112090)	
Place of listing	Shenzhen Stock Exchange	Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	fengjianxiong@zte.com.cn	

2.2 Contact Persons and Correspondence

	Secretary to the Board of Directors/ Company Secretary	Securities Affairs Representatives
Name	Feng Jianxiong	Xu Yulong, Cao Wei
Address	No. 55, Keji Road South, Shenzhen, Guangdong Province, People's Republic of China	
Tel	+86 755 26770282	
Fax	+86 755 26770286	
E-mail	fengjianxiong@zte.com.cn	

3. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

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

Yes No

PRC ASBEs

In early 2014, the Ministry of Finance formulated and promulgated “ASBE No. 39 — Fair Value Measurement”, “ASBE No. 40 — Joint Venture Arrangements”, amended and promulgated “ASBE No. 30 — Presentation of Financial Statements”, “ASBE No. 9 — Employees’ Remuneration” and “ASBE No. 33 — Consolidated Financial Statements”. The Company adopted the five aforesaid accounting standards in the preparation of its 2013 financial statements. In the preparation of its 2014 interim financial statements, retrospective adjustments were made to figures for the corresponding period of 2013. The retrospective adjustments have affected the weighted average return on net assets and the weighted average return on net assets after extraordinary items for the six months ended 30 June 2013, but have had no impact on profit and loss.

HKFRSs

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

3.2 Major Accounting Data and Financial Indicators of the Group prepared in accordance with PRC ASBEs

Unit: RMB in thousands

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

Unit: RMB in thousands

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

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

Note 2: Basic earnings per share for the first half of 2014 was calculated on the basis of the total share capital as at the end of the period. Basic earnings per share for the corresponding period of the previous year was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 3: As the Share Option Incentive Scheme of the Company had no dilutive effect during the reporting period, and there were no Subject Share quotas under the Phase I Share Incentive Scheme of the Company remaining in lock-up for the corresponding period last year, the amount of diluted earnings per share was equivalent to that of basic earnings per share;

Note 4: Net cash flow from operating activities per share for the first half of 2014 were calculated on the basis of the total share capital at the end of the period. Net cash flow from operating activities per share for the corresponding period last year was calculated on the basis of the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company.

3.3 Extraordinary gains or losses items and amounts of the Group prepared in accordance with PRC ASBEs

Unit: RMB in thousands

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

3.4 Major financial indicators of the Group prepared in accordance with HKFRSs

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

Note 1: Basic earnings per share for the first half of 2014 was calculated on the basis of the total share capital as at the end of the period. Basic earnings per share for the corresponding period of the previous year was calculated on the basis of the weighted average number of ordinary shares, namely the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 2: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2014 and the end of 2013 were calculated on the basis of the total share capital as at the end of each period.

3.5 The amount of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2014 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

4. SHAREHOLDINGS OF THE SHAREHOLDERS

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

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

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

Shareholdings of top ten shareholders or shareholders holding 5% or above shares

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

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

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

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> 1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares that were not subject to lock-up listed above. 2. The 7th and 9th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. The fund manager of the 6th ranking shareholder, China Life Insurance (Group) Company, was the controlling shareholder of China Life Insurance Company Limited. 3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A

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

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

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

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

Yes No

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

4.2 Changes in controlling shareholder and de facto controller

Applicable N/A

During the reporting period, there was no change to the controlling shareholder of the Company. There was no de facto controller of the Company.

4.3 Purchase, sale and redemption of securities

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

5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in the shareholdings of the Company's Directors, Supervisors and Senior Management

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

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

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

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

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

Applicable N/A

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

5.2 Interests of the Company's Directors, Supervisors and Chief Executive Officer of the Company in shares or debentures

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

Save as disclosed above, as at 30 June 2014, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules.

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

6. REPORT OF THE BOARD OF DIRECTORS

6.1 Review of business in the first half of 2014

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

During the first six months of 2014, the Big Three domestic carriers stepped up with their investments in equipment mainly in connection with the large-scale deployment of 4G networks and the construction of related ancillary facilities. The rapid development of the Mobile Internet and the launch of 4G smart phones has accelerated the commercialisation of 4G networks. While the wireless sector remained a heavily favoured spot in the telecommunications industry, emerging new sectors such as the Mobile Internet, Cloud Computing, Big Data and Smart City were becoming new growth niches in the industry.

According to statistics published by the Ministry of Industry and Information Technology, revenue from the telecommunication services amounted to RMB595.73 billion for the six months ended 30 June 2014, representing a year-on-year growth of 5.6%.

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

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

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

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

(1) By market

The domestic market

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

The international market

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

(2) *By product*

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

Carriers' networks

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

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

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

Handset terminals

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

Telecommunications software systems, services and other products

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

6.2 Management discussion and analysis prepared in accordance with PRC ASBEs

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

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

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

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

(1) Analysis of change in revenue

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

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

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

Unit: RMB in thousands

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

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

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

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

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

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

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

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

6.3 Management discussion and analysis prepared in accordance with HKFRSs

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

Revenue

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

Analysed by product, there was a slight increase in the Group's operating revenue for the first six months of 2014 as compared to the same period last year, which reflected mainly the combined effect of the increase in operating revenue from carriers' networks in the domestic market and the decrease in operating revenue from handset terminals in the domestic market. Year-on-year

growth in the Group's operating revenue from carriers' networks was mainly attributable to the increase in operating revenue from TD-LTE system equipment and FDD-LTE system equipment. Year-on-year decline in the Group's operating revenue from handset terminals was mainly attributable to the decrease in operating revenue from 3G handsets in the domestic market. Year-on-year decline in the Group's operating revenue from telecommunications software, services and other products mainly reflected the decline in operating revenue from video and network terminals in the domestic market and services in the international market.

Cost of Sales and Gross Profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other income and gains

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

Research and development costs

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

Selling and distribution expenses

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

Administrative expenses

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

Other expenses

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

Profit from operating activities

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

Finance costs

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

Income tax expense

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

Profit attributable to non-controlling interests

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

Other comprehensive income

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

Debt-equity ratio

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

Cash flow data

Unit: RMB in millions

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

Operating activities

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

Investing activities

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

Financing activities

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

Indebtedness

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

Capital commitments

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

Unit: RMB in millions

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

Disclosure required under the Hong Kong Listing Rules

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

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

√ Applicable □ N/A

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

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

6.5 BUSINESS OUTLOOK FOR THE SECOND HALF OF 2014 AND RISK EXPOSURES

6.5.1 Business outlook for the second half of 2014

Looking to the second half of 2014, opportunities as well as challenges will abound in the traditional telecommunications industry, as traditional telecommunications sectors and emerging internet sectors continue to evolve with innovative forces rapidly overhauling traditional enterprises and business models. In connection with carriers’ networks, the telecommunication industry will welcome a new investment cycle with large-scale deployment of 4G networks around the world, especially the issue of 4G licenses in China and the approval of the trial operation of TD-LTE/LTE FDD hybrid networking. However, carriers must address the issue of “dumb pipe” or “dumb information” as they become fully engaged in 4G operations, and business opportunities will abound for those who are able to create value out of information. In the government and corporate service sectors, the in-depth amalgamation of the Mobile Internet and traditional industries, the information revolution triggered by emerging technologies such as the Internet of Things, Cloud Computing and Big Data, as well as the increasingly heightened issue of information security will also present market opportunities. In connection with handset terminals, the next-generation smart terminals will be more intelligent and flexible with more integrated features. There is a trend to develop the smart terminal into a wearable device, as innovation and the fulfillment of consumers’ needs becomes a crucial factor.

To address the opportunities and challenges described above, the Group will integrate and focus its resources in a scientific manner during the second half of 2014 in adherence to its core business principle of “Innovation and Intensification.” We will persist in the operation

of carriers' network products and strengthen the vertical integration of our government and corporate network business and handset terminal business, striving to realise breakthroughs in our profit model.

6.5.2 Risk exposures

(1) Country risk

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risk

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

(4) Interest rate risk

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

(5) Credit risk

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

customer credit rating, credit risk assessment for projects, management of credit granting, credit control against customers with faulty payment records and the purchase of credit insurance, etc to mitigate the aforesaid impact.

7. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

7.1 Compliance of the Corporate Governance Code

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

7.2 Securities Transactions by Directors and Supervisors

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

8. FINANCIAL REPORT

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

8.2 Audit opinion

Unaudited Audited

8.3 Financial statements

8.3.1 Financial statements prepared in accordance with PRC ASBEs (unaudited) (Please see Appendix I)

8.3.2 Financial statements prepared in accordance with HKFRSs (unaudited) and notes thereto (Please see Appendix II)

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

Applicable N/A

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

Applicable N/A

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

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

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

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC
20 August 2014

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Shi Lirong, Yin Yimin and He Shiyong; six non-executive directors, Hou Weigui, Zhang Jianheng, Xie Weiliang, Wang Zhanchen, Zhang Junchao and Dong Lianbo; and five independent non-executive directors, Qu Xiaohui, Wei Wei, Chen Naiwei, Tan Zhenhui and Richard Xike Zhang.

**APPENDIX I: FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH PRC ASBES
(UNAUDITED)**

CONSOLIDATED BALANCE SHEET

Currency: RMB'000

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

Hou Weigui

Legal representative

Wei Zaisheng

Chief Financial Officer

Shi Chunmao

Head of Finance Division

CONSOLIDATED BALANCE SHEET (CONTINUED)

Currency: RMB'000

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

CONSOLIDATED INCOME STATEMENT

Currency: RMB'000

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited) (Restated)
Operating revenue	37,697,309	37,504,784
Less: Operating costs	25,509,830	27,234,174
Taxes and surcharges	672,289	362,636
Selling and distribution costs	4,741,335	4,667,509
Administrative expenses	1,072,251	1,060,788
Research and development costs	4,126,546	3,627,555
Finance expenses	507,970	1,370,126
Impairment losses	1,141,995	926,688
Add: Gains/(Losses) from changes in fair values	(58,769)	162,888
Investment income/(loss)	(76,373)	809,131
Including: Share of profits and losses of associates and jointly-controlled entities	(40,448)	(29,644)
Operating profit/(loss)	(210,049)	(772,673)
Add: Non-operating income	1,912,664	1,556,652
Less: Non-operating expenses	58,629	42,198
Including: Loss on disposal of non-current assets	16,179	7,171
Total profit	1,643,986	741,781
Less: Income tax	472,675	412,537
Net profit/(loss)	1,171,311	329,244
Attributable to:		
Owners of the parent	1,128,206	310,012
Non-controlling interests	43,105	19,232
Earnings per share		
Basic earnings per share	RMB0.33	RMB0.09
Diluted earnings per share	RMB0.33	RMB0.09

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Currency: RMB'000

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited) (Restated)
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent accounting period subject to certain conditions		
Profit or loss arising from changes in the fair value of available-for-sale financial assets	(132,607)	60,487
Effective portion of gain or loss arising from cash flow hedging instruments	848	7,513
Exchange differences on translation of foreign operations	130,301	(167,838)
	<u>(1,458)</u>	<u>(99,838)</u>
Other comprehensive income, net of income tax effect on respective items	<u>(1,458)</u>	<u>(99,838)</u>
Total comprehensive income	<u>1,169,853</u>	<u>229,406</u>
Attributable to:		
Owners of the parent	1,127,355	209,879
Non-controlling interests	42,498	19,527

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

Six months ended 30 June 2014 (unaudited)

Equity attributable to equity holders of the parent

	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total	Non-controlling interests	Total shareholders' equity
I. Current period's opening balance	3,437,541	9,491,663	1,613,195	8,933,788	103,126	(1,046,665)	22,532,648	1,093,041	23,625,689
II. Changes during the period									
(1) Net profit/(loss)	—	—	—	1,128,206	—	—	1,128,206	43,105	1,171,311
(2) Other comprehensive income	—	(133,599)	—	—	—	132,748	(851)	(607)	(1,458)
Total comprehensive income	—	(133,599)	—	1,128,206	—	132,748	1,127,355	42,498	1,169,853
(3) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	89,120	—	—	—	—	89,120	—	89,120
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(48,990)	(48,990)
4. Acquisition of interests from minority shareholders	—	—	—	—	—	—	—	—	—
(4) Profit appropriation									
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	(9,148)	(9,148)
3. Proposed final dividends	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—
III. Closing balance at the end of the period	<u>3,437,541</u>	<u>9,447,184</u>	<u>1,613,195</u>	<u>10,061,994</u>	<u>103,126</u>	<u>(913,917)</u>	<u>23,749,123</u>	<u>1,077,401</u>	<u>24,826,524</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Currency: RMB'000

Six months ended 30 June 2013 (unaudited) (Restated)

	Equity attributable to equity holders of the parent								
	Share capital	Capital reserve	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Sub-total	Non-controlling interests	Total shareholders' equity
I. Current period's opening balance	3,440,078	9,306,752	1,587,430	7,705,022	—	(582,699)	21,456,583	1,136,256	22,592,839
II. Changes during the period									
(1) Net profit/(loss)	—	—	—	310,012	—	—	310,012	19,232	329,244
(2) Other comprehensive income	—	69,369	—	—	—	(169,502)	(100,133)	295	(99,838)
Total comprehensive income	—	69,369	—	310,012	—	(169,502)	209,879	19,527	229,406
(3) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	—	—	—	—	—	—	19,600	19,600
2. Capital reduction by shareholders	—	—	—	—	—	—	—	(48,990)	(48,990)
3. Disposal of subsidiaries	—	—	—	—	—	—	—	(63,221)	(63,221)
4. Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—
(4) Profit appropriation									
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	—	—	—
3. Proposed final dividends	—	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity									
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—	—
III. Closing balance at the end of the period	3,440,078	9,376,121	1,587,430	8,015,034	—	(752,201)	21,666,462	1,063,172	22,729,634

CONSOLIDATED CASH FLOW STATEMENT

Currency: RMB'000

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	41,692,381	37,821,989
Refunds of taxes	3,286,212	3,917,366
Cash received relating to other operating activities	823,979	497,374
Sub-total of cash inflows	45,802,572	42,236,729
Cash paid for goods and services	32,389,429	34,519,109
Cash paid to and on behalf of employees	5,540,915	5,723,526
Cash paid for all types of taxes	3,410,470	2,933,682
Cash paid relating to other operating activities	3,746,449	3,401,496
Sub-total of cash outflows	45,087,263	46,577,813
Net cash flows from operating activities	715,309	(4,341,084)
II. Cash flows from investing activities		
Cash received from sale of investments	983,731	423,898
Cash received from return on investments	54,465	64,971
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	15,314	4,278
Net cash received from the disposal of subsidiaries	—	1,006,367
Sub-total of cash inflows	1,053,510	1,499,514
Cash paid to acquisition of fixed assets, intangible assets and other long-term assets	951,924	1,149,184
Cash paid for acquisition of investments	888,435	1,129,226
Sub-total of cash outflows	1,840,359	2,278,410
Net cash flows from investing activities	(786,849)	(778,896)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Currency: RMB'000

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injections	—	15,000
Including: Capital injection into subsidiaries by non-controlling shareholders	—	15,000
Cash received from borrowings	21,894,336	12,805,703
Sub-total of cash inflows	21,894,336	12,820,703
Cash repayments of borrowings	25,171,010	13,527,730
Cash payments for distribution of dividends, profits and for interest expenses	784,744	960,454
Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders	30,470	—
Sub-total of cash outflows	25,955,754	14,488,184
Net cash flows from financing activities	(4,061,418)	(1,667,481)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	65,864	43,517
V. Net increase in cash and cash equivalents	(4,067,094)	(6,743,944)
Add: cash and cash equivalents at the beginning of year	20,118,274	22,659,635
VI. Net balance of cash and cash equivalents at the end of the period	16,051,180	15,915,691

BALANCE SHEET*Currency: RMB'000*

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

BALANCE SHEET (CONTINUED)*Currency: RMB'000*

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

INCOME STATEMENT

Currency: RMB'000

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

STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

Six months ended 30 June 2014 (unaudited)

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
Currency: RMB'000

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

CASH FLOW STATEMENT

Currency: RMB'000

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	36,099,764	32,379,742
Refunds of taxes	1,885,621	2,796,613
Cash received relating to other operating activities	598,013	384,923
Sub-total of cash inflows	38,583,398	35,561,278
Cash paid for goods and services	34,183,700	35,638,529
Cash paid to and on behalf of employees	1,899,459	2,226,755
Cash paid for all types of taxes	416,839	553,086
Cash paid relating to other operating activities	2,737,826	2,795,716
Sub-total of cash outflows	39,237,824	41,214,086
Net cash flows from operating activities	(654,426)	(5,652,808)
II. Cash flows from investing activities		
Cash received from sale of investments	21,300	21,300
Cash received from return on investments	38,079	46,392
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	9,313	3,811
Net cash received from the disposal of subsidiaries	1,343	1,037,401
Sub-total of cash inflows	70,035	1,108,904
Cash paid to acquisition of fixed assets, intangible assets and other long-term asset	326,771	470,955
Cash paid for acquisition of investments	1,292	207,320
Sub-total of cash outflows	328,063	678,275
Net cash flows from investing activities	(258,028)	430,629

CASH FLOW STATEMENT (CONTINUED)*Currency: RMB'000*

	Six months ended 30 June 2014 (unaudited)	Six months ended 30 June 2013 (unaudited)
III. Cash flows from financing activities		
Cash received from borrowings	<u>6,006,450</u>	<u>9,339,536</u>
Sub-total of cash inflows	<u>6,006,450</u>	<u>9,339,536</u>
Cash repayments of borrowings	<u>9,153,276</u>	<u>9,502,819</u>
Cash payments for distribution of dividends, profits and interest expenses	<u>625,993</u>	<u>742,920</u>
Sub-total of cash outflows	<u>9,779,269</u>	<u>10,245,739</u>
Net cash flows from financing activities	<u>(3,772,819)</u>	<u>(906,203)</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>71,545</u>	<u>(202,457)</u>
V. Net increase in cash and cash equivalents	<u>(4,613,728)</u>	<u>(6,330,839)</u>
Add: cash and cash equivalents at the beginning of the year	<u>11,756,439</u>	<u>15,276,437</u>
VI. Net balance of cash and cash equivalents at the end of the period	<u><u>7,142,711</u></u>	<u><u>8,945,598</u></u>

**APPENDIX II: FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH HKFRSS
(UNAUDITED) AND NOTES THERETO**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Prepared under HKFRSs)	
	Six months ended 30 June 2014	
	Six months ended 30 June 2014	Six months ended 30 June 2013
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Restated)	
Revenue	37,697,309	37,504,784
Cost of sales	<u>(26,576,161)</u>	<u>(27,925,083)</u>
Gross profit	11,121,148	9,579,701
Other income and gains	2,444,284	2,756,650
Research and development costs	(4,126,546)	(3,627,555)
Selling and distribution expenses	(4,806,361)	(4,740,242)
Administrative expenses	(1,142,763)	(1,084,730)
Other expenses	(1,051,579)	(1,346,295)
Finance costs	(753,749)	(766,104)
Share of profits and losses of:		
Joint Ventures	(667)	40
Associates	(39,781)	(29,684)
Profit before tax	1,643,986	741,781
Income tax expense	(472,675)	(412,537)
Profit for the period	<u>1,171,311</u>	<u>329,244</u>
Attributable to:		
Owners of the parent	1,128,206	310,012
Non-controlling interests	43,105	19,232
	<u>1,171,311</u>	<u>329,244</u>
Earnings per share attributable to ordinary equity holders of the parent		
Basic	<u>RMB0.33</u>	<u>RMB0.09</u>
Diluted	<u>RMB0.33</u>	<u>RMB0.09</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

(Prepared under HKFRSs)
Six months ended 30 June 2014
 Six months ended 30 June
 2014 2013
 (unaudited) (unaudited)
 (Restated)
RMB'000 RMB'000

Other comprehensive income

Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the period	848	7,513
Changes in fair value of available-for-sale investments	(132,607)	60,487
Exchange differences on translation of foreign operations	130,301	(167,838)

Other comprehensive income for the period, net of tax	(1,458)	(99,838)
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Total comprehensive income for the period	1,169,853	229,406
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Attributable to:

Owners of the parent	1,127,355	209,879
Non-controlling interests	42,498	19,527
	1,169,853	229,406

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	(Prepared under HKFRSs)	
	30 June 2014	
	30 June 2014	31 December 2013
	(unaudited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets		
Property, plant and equipment	7,545,226	7,697,841
Prepaid land lease payments	1,089,212	1,064,021
Intangible assets	3,375,857	3,081,233
Investment properties	1,951,625	1,855,246
Investments in joint ventures	66,224	66,891
Investments in associates	377,647	411,146
Available-for-sale investments	1,513,650	1,630,271
Long-term trade receivables	356,739	366,762
Factored long-term trade receivables	2,066,672	2,311,525
Deferred tax assets	1,382,079	1,353,033
Pledged deposits	4,002,311	3,396,897
Other non-current assets	214,447	415,700
Total non-current assets	23,941,689	23,650,566
Current assets		
Prepaid land lease payments	24,342	23,649
Inventories	18,751,630	12,434,352
Amount due from customers for contract works	10,380,469	12,137,144
Trade and bills receivables	25,259,242	24,893,928
Factored trade receivables	3,141,831	3,338,801
Prepayments, deposits and other receivables	5,832,774	4,874,021
Financial assets at fair value through profit or loss	366,578	217,454
Pledged deposits	1,040,351	708,641
Time deposits with original maturity of over three months	246,695	76,120
Cash and cash equivalents	16,051,180	20,118,274
Total current assets	81,095,092	78,822,384
Current liabilities		
Trade and bills payables	29,614,150	24,990,555
Amount due to customers for contract works	4,896,879	3,682,564
Other payables and accruals	14,352,500	15,311,007
Interest-bearing bank borrowings	13,128,641	15,342,957
Bank advances on factored trade receivables	3,176,285	3,377,374
Bond payable	5,999,387	—
Tax payable	525,337	557,059
Derivative financial instruments	190,307	67,779
Dividends payable	13,641	34,963
Total current liabilities	71,897,127	63,364,258
Net current assets	9,197,965	15,458,126
Total assets less current liabilities	33,139,654	39,108,692

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under HKFRSs)

	30 June 2014 (unaudited) RMB'000	30 June 2014 31 December 2013 (audited) RMB'000
Total assets less current liabilities	33,139,654	39,108,692
Non-current liabilities		
Derivative financial instruments	3,365	4,286
Interest-bearing bank borrowings	4,667,327	5,385,673
Bank advances on factored long-term trade receivables	2,066,672	2,311,525
Bonds payable	—	6,119,590
Deferred tax liabilities	160,489	139,900
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	95,108	95,806
Other long-term payables	1,316,480	1,422,534
Total non-current liabilities	8,313,130	15,483,003
Net assets	24,826,524	23,625,689
Equity		
Equity attributable to owners of the parent		
Issued capital	3,437,541	3,437,541
Reserves	20,208,456	18,991,981
Proposed final dividend	103,126	103,126
	23,749,123	22,532,648
Non-controlling interests	1,077,401	1,093,041
Total equity	24,826,524	23,625,689

Hou Weigui
Director

Shi Lirong
Director

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised HKFRSs and HKASs

Investment Entities (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011))

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under HKFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under HKFRS 10.

Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities (Amendments to HKAS 32)

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting (Amendments to HKAS 39)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to HKAS 36)

These amendments remove the unintended consequences of HKFRS 13 Fair Value Measurement on the disclosures required under HKAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended 31 December 2013.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of new and revised HKFRSs and HKASs (Continued)

HK(IFRIC) — Int 21 Levies

HK(IFRIC) 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., HKAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. These amendments have no impact on the Group.

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2. OPERATING SEGMENT INFORMATION

	Networks <i>RMB'000</i>	Handset terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2014				
Segment revenue:				
Contract revenue from external customers	21,835,700	—	5,436,938	27,272,638
Sale of goods and services	—	10,406,174	18,497	10,424,671
Total	<u>21,835,700</u>	<u>10,406,174</u>	<u>5,455,435</u>	<u>37,697,309</u>
Segment results	5,307,362	163,021	1,303,472	6,773,855
Bank and other interest income				253,587
Dividend income and unallocated gains				2,190,697
Unallocated expenses				(6,779,956)
Finance costs				(753,749)
Share of profits and losses of:				
Joint ventures				(667)
Associates				(39,781)
Profit/(loss) before tax				<u>1,643,986</u>
30 June 2014				
Segment assets	38,250,953	12,149,005	9,556,625	59,956,583
Investment in joint ventures				66,224
Investment in associates				377,647
Unallocated assets				44,636,327
Total assets				<u>105,036,781</u>
Segment liabilities	9,878,240	841,300	2,467,980	13,187,520
Unallocated liabilities				67,022,737
Total liabilities				<u>80,210,257</u>
Six months ended 30 June 2014				
Other segment information:				
Provision for asset impairment	661,486	315,243	165,266	1,141,995
Depreciation and amortisation	611,974	291,647	152,896	1,056,517
Capital expenditure	895,104	426,577	223,633	1,545,314

2. OPERATING SEGMENT INFORMATION (CONTINUED)

	Networks <i>RMB'000</i>	Handset terminals <i>RMB'000</i>	Telecommunications software systems, services and other products <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2013 (Restated)				
Segment revenue:				
Contract revenue from external customers	19,050,466	—	5,957,952	25,008,418
Sale of goods and services	—	12,460,868	35,498	12,496,366
Total	19,050,466	12,460,868	5,993,450	37,504,784
Segment results	4,080,340	254,355	905,770	5,240,465
Bank and other interest income				159,514
Dividend income and unallocated gains				2,597,136
Unallocated expenses				(6,459,586)
Finance costs				(766,104)
Share of profits and losses of:				
Joint ventures				40
Associates				(29,684)
Profit/(loss) before tax				741,781
30 June 2013				
Segment assets	37,346,779	13,073,161	11,889,669	62,309,609
Investment in joint ventures				46,854
Investment in associates				388,263
Unallocated assets				41,335,226
Total assets				104,079,952
Segment liabilities	10,594,317	1,110,229	3,372,792	15,077,338
Unallocated liabilities				66,227,089
Total liabilities				81,304,427
Six months ended 30 June 2013				
Other segment information:				
Provision for asset impairment	469,815	307,304	149,569	926,688
Depreciation and amortisation	402,499	263,273	128,139	793,911
Capital expenditure	579,451	379,018	184,473	1,142,942

2. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 June 2014 and 2013 is set out in the following table:

	Six months ended 30 June 2014 <i>RMB'000</i>	Six months ended 30 June 2013 <i>RMB'000</i> (Restated)
The PRC	19,259,606	18,750,061
Asia (excluding the PRC)	5,867,677	6,327,118
Africa	2,210,694	3,034,884
Europe, Americas and Oceania	10,359,332	9,392,721
Total	<u>37,697,309</u>	<u>37,504,784</u>

3. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June 2014 <i>RMB'000</i>	Six months ended 30 June 2013 <i>RMB'000</i> (Restated)
Revenue		
Telecommunications system contracts	27,272,638	25,008,418
Sale of goods and services	10,424,671	12,496,366
	<u>37,697,309</u>	<u>37,504,784</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2014 <i>RMB'000</i>	Six months ended 30 June 2013 <i>RMB'000</i>
Cost of goods and services	25,295,240	25,196,409
Depreciation	660,932	481,146
Amortisation of land lease payments	10,289	9,365
Amortisation of intangible assets other than deferred development costs	28,537	57,973
Amortisation of development expenses	356,759	245,427
Provision for bad and doubtful debts*	819,172	627,247
Provision for warranties**	195,170	193,321
Write-down of inventories to net realisable value**	322,823	299,441
Exchange difference, net	—	638,028
Loss on disposal of fixed assets*	16,214	7,171
Equity-settled share expense	89,120	—

* Provision for bad and doubtful debts, loss on disposal of fixed assets are included in "Other expenses" on the face of the consolidated statement of comprehensive income.

** Provision for warranties and Write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

5. INCOME TAX

	Six months ended 30 June 2014 <i>RMB'000</i>	Six months ended 30 June 2013 <i>RMB'000</i>
Group:		
Current — Mainland China	390,197	299,836
Current — Overseas	90,935	87,638
Deferred	(8,457)	25,063
Total tax charge for the period	472,675	412,537

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law effective from 1 January 2008, the tax rate applicable to domestic invested enterprises and foreign-invested enterprises in the PRC has been standardised at 25%.

5. INCOME TAX (CONTINUED)

The Company was subject to an enterprise income tax rate of 15% for the years 2011 to 2013 as a national-grade hi-tech enterprise incorporated in Shenzhen. Application for the status of national-grade hi-tech enterprise for years 2014 to 2016 is in progress.

6. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2014 (Same period in 2013: nil).

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the parent Company for the period	<u>1,128,206</u>	<u>310,012</u>
	Six months ended 30 June 2014 Shares'000	Six months ended 30 June 2013 Shares'000
Shares		
Weighted average number of ordinary shares of the Company in issue	<u>3,437,541</u>	3,437,541
Diluting effect — weighted average number of ordinary shares	<u>—</u>	<u>—</u>
Adjusted weighted average number of ordinary shares in issue	<u>3,437,541</u>	<u>3,437,541</u>

8. TRADE AND BILLS RECEIVABLES

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit terms are normally 90 days, and is extendable up to one year depending on customers' creditworthiness customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provision, is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within 6 months	20,250,504	19,962,075
7 to 12 months	3,627,693	2,695,215
1 to 2 years	1,551,815	2,407,100
2 to 3 years	185,969	196,300
Over 3 years	—	—
	<u>25,615,981</u>	<u>25,260,690</u>
Less: current portion of trade and bills receivables	<u>(25,259,242)</u>	<u>(24,893,928)</u>
Long-term portion	<u>356,739</u>	<u>366,762</u>

The balances due from the controlling shareholder, joint ventures, associates and other related companies included in the above are as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
The controlling shareholder	1,686	1,031
Joint ventures	348,208	81,048
Associates	6,973	10,553
Other related companies	121,320	94,862
	<u>478,187</u>	<u>187,494</u>

The balances are unsecured, interest-free, repayable on demand and on credit terms similar to those offered to the major customers of the Group.

9. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payable as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	28,900,147	24,351,477
7 to 12 months	218,511	144,334
1 to 2 years	59,904	181,730
2 to 3 years	177,747	258,957
Over 3 years	257,841	54,057
Total	<u>29,614,150</u>	<u>24,990,555</u>

The balances due to the controlling shareholder, associates and other related companies included in the above are as follow:

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
The controlling shareholder	51,370	56,507
Associates	7,538	56
Other related companies	162,853	227,868
Total	<u>221,761</u>	<u>284,431</u>

The balances are unsecured, interest-free and repayable on demand.

Trade payables are non-interest-bearing and are normally settled on 180-day terms.

10. POST-BALANCE-SHEET-DATE EVENTS

There were no events with a significant impact on the Group during the period from the close of the accounting period to the date on which the Company's financial statements were approved and authorised for publication.